

# Nation's Business

A USEFUL LOOK AHEAD

JULY 1957

EXCLUSIVE  
SURVEY:

# HOW SECOND HALF LOOKS

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## Complexion care for apples

Bigger and better fruit is yours

...with good looks that are more than skin deep

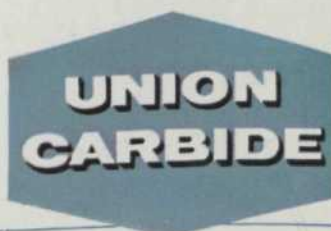
Apples, peaches, and cherries all taste best when they look best. But even before the first bud appears, fruits are constantly exposed to attack from plant diseases that can stunt growth and leave ugly blemishes on the surface.

**This battle** is now being won with a remarkable liquid chemical spray called CRAG Glyodin. By preventing fungus growth, it improves the overall health of the trees and stimulates the natural glowing color of the fruit.

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**The people of Union Carbide** will continue their research to develop more of the products that help bring better foods to your table.

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BAKELITE, VINYLITE, and KRENE Plastics	PYROFAX Gas	NATIONAL Carbons	Dynel Textile Fibers
		UNION Calcium Carbide	UNION CARBIDE Silicones





**WALTER H. BRATTAIN.** One of three winners of the 1956 Nobel Prize in Physics for investigations on semiconductors and the invention of the Transistor, the tiny device which has created a new electronic era in communications.



**H. F. DODGE.** Awarded Shewhart Medal by American Society for Quality Control, for original contributions to the art of statistical quality control—used by Western Electric in making millions of items of telephone equipment.



**H. T. FRIIS.** Awarded Medal of Honor, Institute of Radio Engineers and Valdemar Poulsen Gold Medal, Danish Academy of Technical Sciences for important work in application of short and ultra-short radio waves.



**AXEL G. JENSEN.** David Sarnoff Gold Medal, Society of Motion Picture and Television Engineers, for technical contributions to television; Hagemann Gold Medal for Industrial Research, Royal Technical College, Copenhagen.



**R. KOMPFFNER.** Awarded Duddell Medal by the Physical Society of England for his original work on the traveling wave tube. This new amplifier makes it possible for long distance microwave highways to carry more telephone conversations and TV programs simultaneously.



**WARREN A. MARRISON.** Awarded the Tompion Gold Medal, Worshipful Company of Clockmakers of the City of London, for pioneer work on quartz crystal oscillators as precision standards of time. This control of electrical vibrations is used to send many voices over the same telephone line.



**W. G. PFANN.** Awarded the Mathewson Gold Medal by the American Institute of Mining and Metallurgical Engineers for discovery of and pioneering research in zone melting. This provides the extraordinary purity of silicon and germanium needed in the manufacture of transistors.



**CLAUDE E. SHANNON.** Awarded the Stuart Ballantine Medal by the Franklin Institute for contributions to a comprehensive theory of communication. This greatly illuminates our understanding of how communications systems handle information. It points to new ways to improve service.

## Partners and Pioneers in Progress

On this page are some of the Bell Telephone Laboratories scientists and engineers who have been honored recently for outstanding achievement in the sciences that bear on telephony.

We are proud of this fine recognition of their work and the contributions of the many other engineers and scientists who are helping to make telephone dreams come true.

For always there have been dreams and high hopes in the telephone business. Growth begets growth. Research reveals new vistas. The words of thirty years ago are even more true today. "The future of the telephone holds forth the promise of a service growing always greater and better and of a progress the end of which no one can foresee."

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Never have there been so many opportunities for wholly new developments in telephone service and so much well-rounded research to put behind them. All that has been done is just the beginning.

Working together to bring people together . . . **BELL TELEPHONE SYSTEM**





# Nation's Business

July 1957 Vol. 45 No. 7

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Washington, D.C.

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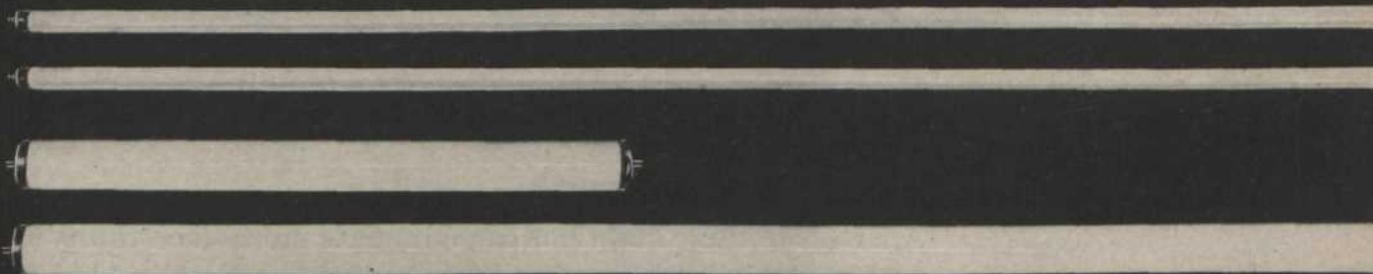
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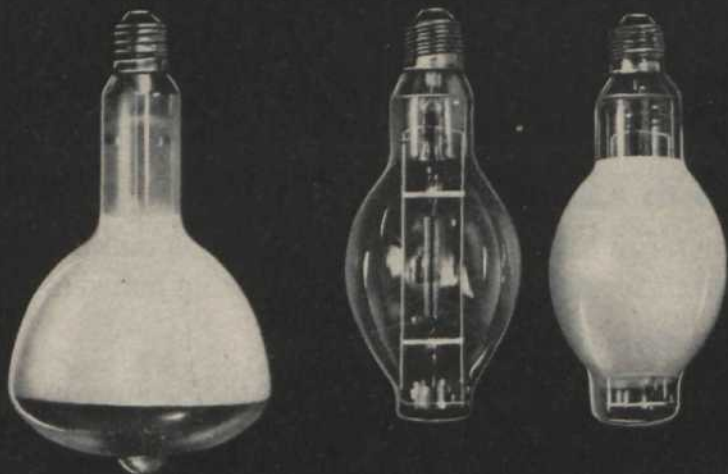
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**Fluorescent Lamps**, for example, have a new high-intensity phosphor—*Ultralume™*—which gives more lumens per watt plus uniform end-to-end light for the life of the lamp.

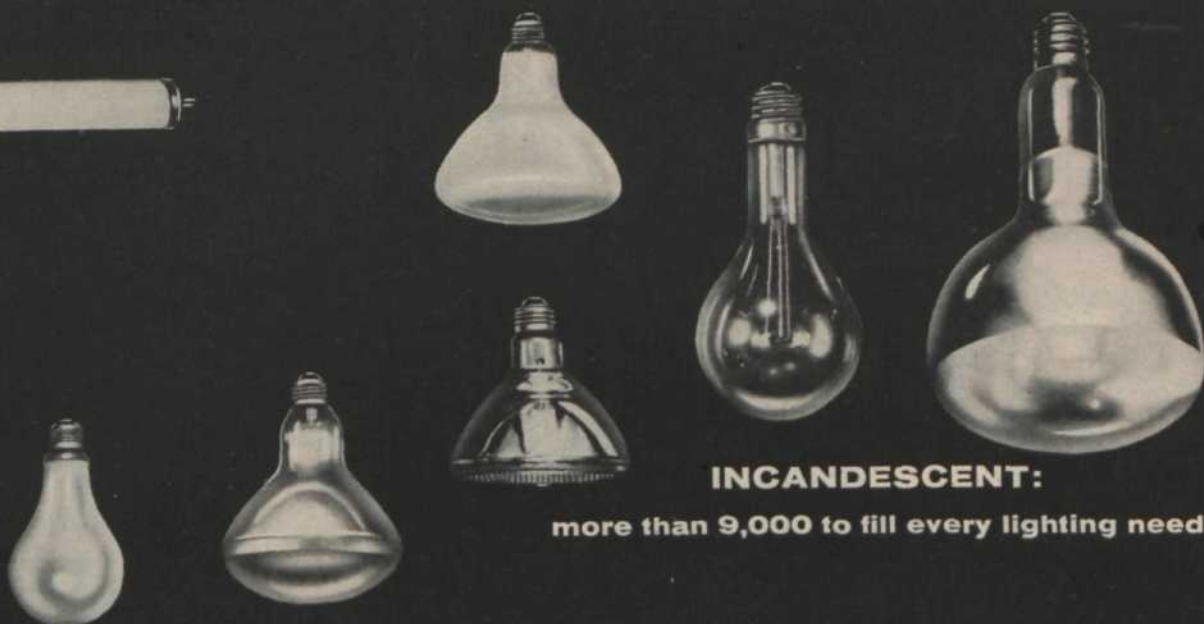
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## **“but not a drop to drink...”**

Flood water is wild water . . . brutal . . . a killer!

Floods pollute your drinking water, spread disease.

Erode the farmlands that supply your food. Destroy homes, cattle . . . disrupt communication, cost America over a billion yearly in damage.

Engineers are working hard to harness floods . . . and finding many answers. But flood control is only one phase of the complicated problem of keeping you amply supplied with water. They need your help in other ways. Cooperate.

1. Encourage future water planning.
2. Support realistic water rates and water supply bond issues.
3. Conserve water where you can.

With water, it's later than you think.



### **PROOF POSITIVE CAST IRON PIPE SAVES YOU TAX DOLLARS**

This cast iron water main laid in Chicago in 1852 is still on the job. This is typical of many century old cast iron water and gas mains still serving throughout America.

Small wonder that where long life, dependability and economy are “musts”, water officials prefer cast iron pipe . . . No. 1 Tax Saver!

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# management's WASHINGTON LETTER

## ► IT'S SHOWDOWN TIME in Congress.

First session is expected to end by early next month.

Attention will center on these topics: Schools--Hot discussion on House floor is expected on federal intervention plan.

Senate probably won't act.

Postal rates--Passage depends on Senate committee.

Wage controls--Extension of minimum wage law will be talked about, probably won't pass.

Labor law--Protection for welfare, pension funds will be talked about.

Also general dues fund will come under discussion.

But many congressmen want to wait for Senate rackets committee to make recommendations.

Foreign aid--Something less than \$3.9 billion President asked will get approval.

Debate will get warmer soon on wisdom of program cuts.

Taxes--Bills to cover any type of revision or combination of revisions have been introduced.

No reduction this year, doubtful even for next year because of smaller surplus than formerly anticipated.

Depressed areas--No action expected.

Note: Bills not passed in first session carry over to next year.

## ► DON'T LOOK FOR EARLY DOWNTURN in overall government spending.

Remember:

You can speed up spending faster than you can slow it down.

Some economy moves will begin to show results soon.

But total government outlays may climb on up for another year before level-off or downturn is sighted.

For now, for rest of this year, spending trend is upward.

## ► IT'LL CONTINUE UPWARD, says Budget official, regardless of congressional economy action.

Two reasons:

1. Congress has only limited and indirect control over spending in year just ahead.

2. Many budget cuts are bookkeeping technicalities.

Examples detailed on page 25.

## ► GOVERNMENT SPENDING is climbing at faster rate than total economy.

Looking at prospects for all of 1957, Congress' Joint Economic Committee predicts:

Gross private product (all goods, services, excluding government purchases) will average \$348 billion.

That's 4.7 per cent higher than last year's record.

Meanwhile, total government purchases will average \$87 billion--or 8.9 per cent rise.

Last year's private total was 5.9 per cent higher than 1955 and government total was up 4 per cent.

## ► UNUSED AUTHORITY TO SPEND now totals about \$70 billion.

That's previously voted authority to incur obligations.

President asked this Congress to approve additional \$73.3 billion.

But actual spending, he estimated, would total \$71.8 billion.

Keep difference in mind:

Congress can clap lid on additional authorization while actual government spending soars--out of backlog.

## ► HERE'S RUNDOWN ON HOW U.S. spending is climbing:

Legislative branch--spending about \$9 million more than year ago.

Judiciary--\$2 million more.

Executive Office of President--about \$1 million more.

Military assistance--up \$92 million.

Other mutual aid--up \$39 million.

Atomic Energy Commission--spending \$253 million more than year ago.

Veterans--\$39 million higher.

General Services Administration--\$22 million higher.

Housing, Home Finance Agency--up \$44 million.

Health, Education, Welfare--about \$240 million higher.

Interior--up \$48 million.

State Department--up \$14 million.

Interest--about \$374 million higher than year ago.

Military spending--almost \$2.5 billion higher.

Agriculture--about \$346 million lower.

Commerce Department--about \$600 million lower because of highway program



being placed under trust fund outside regular budget.

Other categories of spending are at about same level as year ago.

Example: Justice Department is spending \$1 million less than last year.

Note: Figures are approximations.

Final tabulations on fiscal 1957 finance will be available soon, probably will show spending up about \$3 billion for the year.

►LEGISLATIVE LOAD IN STATES will probably set new record this year.

More than 81,000 bills have been introduced in state legislatures so far.

That's about equal to total for all of 1955, last comparable year.

Commerce Clearing House expects new all-time high to pass 93,000 by year's end.

Item: Of 83,542 bills introduced in state legislatures in 1955, total of 24,366 were enacted.

►ECONOMISTS SEE BUSINESS SPEED UP coming as U. S. enters second half of 1957.

Year should average \$435 billion gross output--rise to annual rate of about \$440 billion by year's end.

That's prediction of Congress' Joint Economic Committee staff, others in government, business.

See page 72 for details.

►IN LESS THAN A YEAR from now U. S. business, industry will have spent \$300 billion for new plant, equipment since World War II.

Includes estimated \$37.4 billion to be spent this year.

Rate so far is running about 9 per cent above last year's record expansion.

Key factor in growth plans:

Confidence in vigorous future of America.

What do businessmen think of coming 6 months? See page 28.

►ENORMOUS PROGRESS and potential of U. S. is reflected in new book to be published this month.

Based on 5-year Twentieth Century Fund study, it's titled "U.S.A. In New Dimensions."

Presents key findings of massive study

"America's Needs and Resources"--see NATION'S BUSINESS, May '55.

Here's theme of U. S. success:

One man with today's power-driven equipment can do as much work in 40 hours as 3 men working 70 hours a week with tools of century ago.

►BUSINESS HOLDS KEY to America's future.

That's view of leading business educator who sees role of management changing--assuming new significance in struggle between freedom and controlism.

He is: Dean Courtney C. Brown of Columbia University Graduate School of Business.

He says:

"Today we find top management recognizing responsibility, obligation not just to stockholders but to labor, to suppliers, customers, community at large."

In this country, he says, corporations are doing much of the work done by government in other countries.

What are the functions, opportunities of corporations in the future?

Dean Brown explains on page 32.

Note: Columbia is considering two new professorships.

One will deal with philosophy of business, the other with why attitudes toward business change.

►WAGES ADVANCING FASTER than profits?

Here are figures:

Weekly earnings of factory workers are up 35 per cent before taxes, 28 per cent after taxes--in 6 years.

Corporate profits after taxes are down 1.8 per cent--same period.

In terms of constant value dollars, figures show:

Weekly earnings up 13 per cent.

Profits down 13 per cent.

►NOT ALL FIRMS MAKE profits.

Latest Internal Revenue Service figures show:

722,805 business corporations filed tax returns during year.

281,628--or 39 per cent--showed no profits.

►UNION MEMBERS DON'T AGREE on how to take shorter work week--if they get it.

More unions are joining drive for



shorter working hours--labor's next big objective.

But there's disagreement within the ranks.

Union survey shows:

Half workers want fewer days in week rather than shorter days.

Fourth prefer longer vacations.

Other fourth evenly split between shorter days, three day week ends.

Many workers would rather have benefits of improved productivity in higher pay than in more leisure time.

Item: Many persons working shorter hours take second job.

►ESTIMATED 3.7 MILLION Americans are working at more than one job.

That's 5.5 per cent of all employed.

Survey was conducted by Census Bureau.

Similar survey 6 years ago revealed 1.8 million persons working at extra job.

Figure was 3 per cent of total employed at that time.

►UNION TO WATCH is Walter Reuther's United Auto Workers.

He'll spearhead drive for shorter hours, higher pay in auto industry next year.

So far, his progress is slow.

Early maneuvers trying to get companies to participate in joint labor-management study of how to shorten hours have failed.

Here's a forecast:

UAW won't win shorter hours.

Mr. Reuther will get some concessions in principle--which he'll use to claim victory.

►HERE'S PROGRESS REPORT on federal plan to spend U. S. money for sewage treatment facilities in cities:

Total of 395 municipalities so far have received more than \$32.5 million from U. S. Treasury.

Program started last December.

Department of Health, Education, Welfare says average project will cost total of about \$310,000.

Federal payments to cities average between \$75,000 and \$100,000.

Individual grants may not exceed \$250,000, or 30 per cent of total cost for each project--whichever is less.

Local government puts up remainder of cost.

Congress authorized annual grants to total up to \$50 million--with \$500 million aggregate.

►WASHINGTON TRENDS: Congressional subcommittee is planning possible investigation of manpower utilization in government jobs.

Group--in planning stage--expects to pay special attention to Defense.

- - -

Census Bureau:

Do you need to know more about household, family characteristics?

There's a new study (Series P-20, No. 75) which says:

Households in metropolitan areas rose in 6 years from 24.7 to 29.3 million.

In other areas number rose from 18.9 to 19.5 million.

- - -

Office of Business Economics:

Disposable personal income--what people have after taxes--is running about 5.5 per cent higher than a year ago.

After allowing for price rises, Office of Economics says that's 2 per cent higher in real purchasing power.

Note: Disposable personal income probably will reach \$300 billion annual rate by fall.

- - -

Social Security Administration:

Ten millionth person now receives social security pay.

Program started in 1940 when first check went to Ludlow, Vt., woman.

Administration says 73 million persons now have protection for families under survivors' rights.

Trust fund has \$22.5 billion, is making payments at rate of \$540 million per month.

►LOOK FOR: Stepped up debate on wisdom of trading or not trading with Red Chinese. Other countries are expanding trade. U. S. trades nothing directly....

Federal debt not to exceed \$275 billion during fiscal 1958....

U. S. population to reach 172 million by early November. Census Bureau says we're adding 8,000 persons daily, 3 million yearly. U. S. passed 171 million in June....





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# Letters from businessmen

## Salt heavily

In your May issue Edward T. Folliard reports that senators on the McClellan committee investigating racketeering in the unions are astonished by the revelations, and especially by the large sums of money that are involved, in the current scandals.

Senators are reported to be baffled by the haughty and arrogant attitude of teamster leaders toward members of their union. Any senator of moderate intelligence should be ashamed to pretend astonishment at such revelations. Some of our most able lawmakers and news commentators have for years been giving facts and figures on this menace.

Take the bafflement and astonishment with more than the usual grain of salt.

DONALD F. BLYTHE,  
New Orleans, La.

## Montana's growth

The article, "How Your Customers Come and Go" [May issue], predicts Montana will lose 20,000 people between 1957 and 1960 because of an outward migration trend. If this prediction is substantiated by final figures in 1960 it will reverse a pronounced population growth for Montana which has been due in part to in-migration.

Records of the State Board of Health show that in the six-year period 1950-1955 inclusive, Montana's natural population growth (excess of births over deaths) has been 63,301. In the same period, the Board of Health reports indicate that Montana's total population has grown from 591,024 in 1950 to 660,000 in 1955, a gain of 68,976. These figures indicate that the excess of in-migration over out-migration has been 5,675 during these six years.

In February of this year the State Board of Health estimated Montana's 1956 population to be 675,000, a gain of 15,000 over 1955. That increase is in excess of the state's natural growth, which has been running at a rate of about 11,000 annually. The excess of in-migration over out-migration, of course, accounts for a good part of the population growth.

Economic and other conditions in

Montana at the present time do not support a conclusion that the demonstrated in-migration trend of the last six years will be reversed and that the state will lose 20,000 people by population movement in the next three years.

R. A. NEILL,  
Research consultant,  
The Montana Power Company,  
Butte, Mont.

►Federal Census Bureau estimates give Montana a net civilian out-migration of 14,000 for 1950 to 1955. Based on this trend, out-migration for eight years, 1957 to 1965, was estimated at 20,000. Map text in article read "between 1957 and 1960"—should have read "between 1957 and 1965."

## Farmer looks at soil bank

Although some of the complaints mentioned appear to be more a matter of regional jealousies than of sound reasoning, "Why Farm Plan Won't Work" [May issue] is an excellent article. When more magazines of a caliber comparative to that of your own start to publicizing the costs and ineffectiveness of the current type farm plans, we can hope for beneficial changes in the future.

I am convinced that farmers are entitled to that measure of protection which is necessary to give their products and their workers the same kind of benefits that industrial products and workers derive from tariffs, minimum wage laws and the like. But I am also convinced that there are better ways and means of supplying the deserved protection than by choking off production at home and subsidizing increased production abroad.

In my humble opinion the soil bank idea is a step further in the wrong direction that we have been traveling during the last 20 years, or longer. It appears to me that a straight domestic allotment program under which all farm products would be sold at the prevailing world prices and which would give the producer a direct subsidy to make up the difference between the world price and the supported price of his allotted products would be simpler, less costly, and generally more effective than any of the programs of the past or present.

The farmer who could not profitably grow surpluses to sell at world prices would soon curtail his own





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you do...



there's one  
for you!

Whatever your need in an adding machine, you'll find Burroughs makes one with exactly the right features, functions and price for you. Most complete line in the business, featuring three basic styles: compact Ten Key, full-keyboard Director, economy-buy Thriftline. Which for you? Our nearby branch or dealer will gladly demonstrate. Burroughs Corporation, Detroit 32, Michigan.



"Burroughs"—Reg. T.M.

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plantings. But he would very probably be better off than he now is.

The cost of the domestic subsidy would be passed along to the domestic consumers just as is the cost of guaranteed wages in industries and the cost of the current farm programs.

The cost-price squeeze is such that I cannot possibly net as much from the production, harvest and sale of an acre of cotton as I could get by "banking" that acre. My average production is well above the county and the community average. There are, however, some producers in the county and in my community who top my production averages. My soil bank price figure was very attractive, but I have not been able to bring myself to the pledging of any of my acres.

I have many objections to the soil bank idea. The chief ones are: It just "ain't" right to expect pay for doing nothing, and what hurts business hurts me.

With my acreage to cotton already cut 50 per cent below my average planting during years when acreage restrictions are not in force, banking any part of my allotted acres would throw some of my employees out of work. I would have to cut back on the parts, labor and supplies that I normally purchase.

My own "savings" in labor and supplies costs would not injure any business in my county or elsewhere, but wholesale "savings" of the kind by all the farmers in an area can cut a big slice out of the business done by merchants, suppliers and farm service organizations. No program makes sense when it serves to reduce business in your community, state and nation.

F. W. SHARBROUGH, JR.,  
F. W. Sharbrough Farms,  
Holly Bluff, Miss.

### Early start

I am a student at Bowling Green State University and there were two articles in the May issue that I find of particular value for bettering myself. These articles are "How to Say What You Mean," and "This Approach Speeds Problem-Solving." Please send one copy of each.

JIM BACHMAN,  
Bowling Green, Ohio

### Impact

I requested two copies of "Throw Away Your Business Grammar" (August 1955 issue). They arrived here and the response to them was unbelievable. Would you send me 50 copies of same, charging this department for any costs involved?

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# **WHO'LL MANAGE IF YOU BREAK DOWN?**

BAR ASSOCIATIONS and state legislatures are making a concerted effort to close a legal gap into which now fall such situations as these:

► The owner-president of a small manufacturing firm suffers a stroke and is unable even to sign his name or speak intelligently for the better part of a year.

► Halfway through important contract discussions, one negotiator suffers a mental breakdown and is unable to continue.

► One member of a partnership is seriously injured in an auto accident and is hospitalized in a coma for months.

Who handles the business affairs for the disabled people in these circumstances? How are their agents or proxies determined? To what extent can the substitute managers act? Today's law doesn't say.

In each case the problems are the same, but about the only thing certain in regard to the solutions is that the one who becomes incompetent will have nothing to say about them. The law does not now recognize any effective way for a person to make provision in advance for his own incompetence or quasi incompetence.

Normally, in such instances, some makeshift arrangement must be made.

The chances are that it will be unsatisfactory to all parties, whereas if the incompetent person had been able previously to designate who should act for him, and in what matters, better results could be expected.

The American Bar Association has created a special investigating Committee on the Management of Incompetents' Property to work up answers for this particular enigma in probate and trust law.

Its evaluations are beginning to take form.

In its 1957 recommendations for state legislation, the Council of State Governments has called for a special interstate compact on mental health—modeled on a 1956 agreement between three northeastern states.

Such moves are in response to needs arising not only from the complexity of modern business affairs,

but from the shifting status of the nation's collective age and health.

For instance:

► As the median age level of the population rises, more people are becoming subject to incompetency.

► Previously fatal accidents or illnesses are now mitigated but not avoided nor entirely remedied; the result is an additional number of temporarily incompetent persons.

► Advances in the understanding of mental illness are disclosing that a high percentage of people need help at one time or another in handling their business affairs.

There are, of course, certain things people can do legally to have others act in their behalf in business affairs. Power of attorney can be granted. A living trust can be created. Property can be held jointly.

But each of these techniques seems to have a flaw as matters now stand in regard to incompetency.

Power of attorney rests on the laws of agency, a cardinal rule of which is that no agent can act where his principal cannot. A living trust is impossible to create once the person involved becomes incompetent. Jointly held property is in most jurisdictions susceptible to tax and fiduciary disadvantages.

Where mental illness is the cause of incompetency, a host of other difficulties may be encountered.

Generally, a mentally ill person today must still be legally described as a lunatic or idiot if he is to receive institutionalized care and treatment from the state. Families and business associates are reluctant to petition for aid in these circumstances.

Most states now base eligibility for treatment of the mentally ill on technical rules of residence and settlement rather than on the patient's medical needs. These rules differ, requiring from one to five years of residence prior to eligibility and an equal variety of methods in acquiring residence.

"As a result," says the Council of State Governments, "it is often impossible to establish any legal residence for a person who is mentally ill. He may be unable to get treatment anywhere. In other instances



patients may be shipped across the country to hospitals in states where they have no family or relatives, but which are their residences for legal purposes. In still others, improved patients who could be discharged on leave to their families are retained because of residence laws."

To relieve, or at least modify, these difficulties the ABA's committee is considering the recommendation of three basic devices—each a complete innovation in business law:

► A new conception of a contingent will—a sort of testamentary document to become effective upon certification of incompetency by designated persons. If the contingency occurs, the document stipulates who would handle what business affairs.

► A new conception of power of attorney in which the agent's ability to act for his principal will not end upon the principal's incompetency.

► A new conception of a living trust which may be created at any time but which does not become effective unless incompetency occurs.

According to James O. Wynn, New York attorney who heads the ABA committee, the first alternative is the best.

"For practical purposes," says Mr. Wynn, "there is little difference between the incapacity of a man lying for six months in a hospital . . . and the incapacity of death. . . . And both cases should be treated alike to the extent possible."

Meanwhile the recommendation for an Interstate Compact on Mental Health is in the process of being placed before all state governors, state attorneys-general and commissions on interstate cooperation.

The compact grew out of an agreement recently concluded between Massachusetts, Connecticut and New York. It is being sponsored by the Council of State Governments for acceptance by others. The Governors' Conference also has expressed interest in it. In brief it would:

**Assure** that any state will give care and treatment to any person found in that state who needs care by reason of mental illness.

**Permit** the transfer of the patient to an institution in another state when in the best interests of the patient.

**Provide** cooperative machinery for aftercare or supervision of patients on convalescent status.

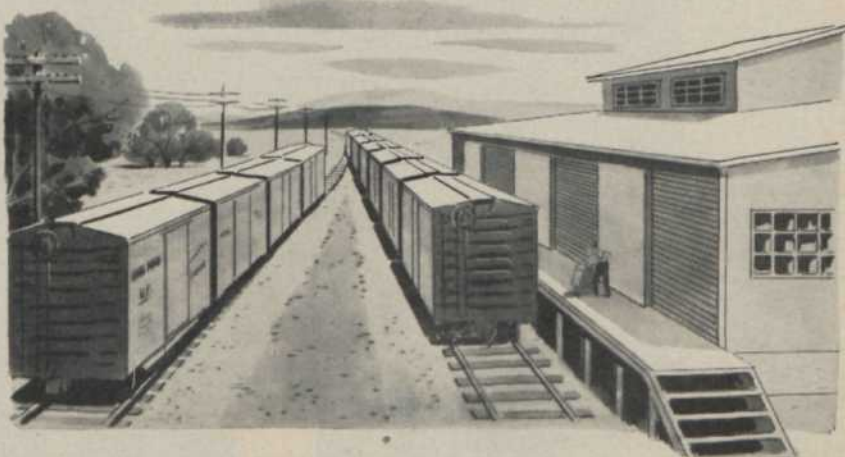
**Authorize** any supplementary agreements for provision of cooperative services or facilities that two or more states might want to make.

None of these conditions exists now on a wide scale.

—PHILIP B. YEAGER

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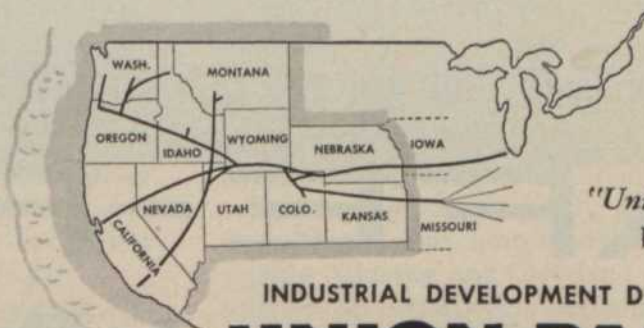


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# Trends

## of Nation's Business



FRED J. MARCON

## THE STATE OF THE NATION

BY FELIX MORLEY

### You foot the bill for foreign aid nonsense

AFTER THE HOUSE had cut \$47 million from his budget for the fiscal year now opening, Secretary of State Dulles told the Senate Appropriations Committee that this economy would seriously menace national security.

"Our responsibilities," he said, "are mounting almost daily. . . . The total effect of these cuts would be to breach gravely the front line of our defense of peace and freedom in the world."

The Secretary of State seemed especially distressed by the sharp reduction—nearly 50 per cent—voted by the House in his Department's International Educational Exchange Program, for which an appropriation of \$30 million had been requested. "International communism," he argued, "pays great attention to opinion-forming persons

and particularly to those who teach and train the youth." Washington should show as much wisdom as Moscow in this respect. The educational exchanges sponsored by the Department of State "represent an indispensable minimum effort to insure a better understanding over the years ahead as between the free nations." They are a vital part of the program "upon which an enduring peace depends."

• • •

On the very day that Mr. Dulles was making this eloquent plea I happened, by pure coincidence, to witness the contrast between his glittering generalities and the plain unvarnished facts, in one particular item of this International Educational Exchange Program. I was in England, at my own expense, visiting an old friend who has close newspaper connections in Washington. One of these had sent him a copy of a State Department Press Release for April 11, which had my friend hopping mad, as was intended.

Yet the release was purely factual. It related that: "Lou Brissie, former pitcher with the Philadelphia Athletics and Cleveland Indians . . . has accepted an invitation to participate in the International Educational Exchange Program of the Department of State." It was not the selection, but merely the diplomatic mission assigned to Mr. Brissie, which angered the Englishman. For this mission is to Australia where, to quote the press release further, Mr. Brissie "will conduct baseball



## State of the nation

clinics and advise baseball unions and officials, as well as youth leaders, on developing the game among the youth of that country."

My English friend is an enthusiastic cricket fan. "What the dickens," he shouted at me (only in stronger language) "is your bloody State Department trying to do? Doesn't it know that our most popular sporting event is the annual Test Match between Australia and England? Why is your government trying to seduce Australian boys away from cricket? Haven't you done enough damage at Suez without adding insult to injury like this? What would you think if we filled America with retired cricketers paid by our Treasury to discredit baseball?"

The tirade, only half humorous, deserves remembrance. It helps to reduce official eloquence on the indispensability of foreign aid to something like its true proportions. And it well illustrates the strongly negative reaction which is all too frequently aroused abroad by our doubtless well intentioned squandermania.

Of the excellent and arduous work accomplished by American career diplomats, often under the most exacting circumstances, there is no question. Having just returned from a two-months personal study of the prospects for unification in Western Europe, I can personally testify both to the quality and quantity of their information. But this simply does not apply to the swarm of public affairs officers, cultural attaches and information specialists who now cluster like not too busy bees around every embassy and consulate of the United States. It is sheer absurdity to say that their overlapping, duplicating and often wholly inconsequential activity cannot be curtailed without inviting the triumph of communism. In fact, our diplomacy is hampered by the ever increasing administrative complexity. With half the present staff many of our diplomatic missions would probably do a better job.

Aside from the fantastic nature of many of its manifestations, there is the indication that the net of our foreign aid program may be actually to impede the attainment of fundamental objectives in our foreign policy. One of these, frequently stressed, is the furtherance of economic and political unity in Western Europe. But many Europeans tell you that our subsidization of their governments is retarding unification by bolstering contradictory vested interests in each of the little nation-states. If each were more necessitous all would be more likely to pool their strengths. A prominent Frenchman expresses this opinion in the form of a hypothetical question.

"Suppose," he said to me, "that after your Revolution the French Government had offered to Massachusetts a handsome annual subsidy, on the condition that it would refrain from any trade with England. Wouldn't that have retarded the formation of your Union?"

There are signs, such as the decision of the British and French to trade more freely with Red China, that in spite of our subsidies the nations of Western Europe no longer feel it imperative to adjust their policies to those of the United States. And there is some reason to think that the continued insistence on foreign aid—or "mutual security" as the State Department prefers to call it—is in order to check the emergence of an independent-minded Europe which would not be technically neutral as between the United States and Russia, but would nevertheless go its own way as a third force as little subject to the will of Washington as to that of Moscow.

Certainly the people of Western Europe do not share the almost psychopathic fear of Soviet Russia which now so strongly contrasts with the fatuous faith in Stalin shown by our wartime diplomacy. Even in the German Federal Republic, continuously overshadowed by Russia, there is far less anxiety about Soviet aggression than is daily voiced here. Indeed the Germans are so little worried that it is only over strong domestic opposition, and much more slowly than scheduled, that Chancellor Adenauer has been able to build any army at all.

It is noteworthy, however, that German recruiting has picked up a little since the British announced that as an economy measure they will this year reduce their troops in Germany by nearly 20 per cent. Undoubtedly more Germans would get into uniform if the American forces there were similarly diminished. But they would be most unhappy to do so. One of the reasons for the present phenomenal prosperity of Western Germany is that its defense is so largely underwritten by the United States. It is an arrangement with which the German taxpayers are wholly satisfied.

Governments, like individuals, soon grow accustomed to subsidies, and come to count on them. If our State Department thinks such subsidies should grow ever greater in order to hold the free world together, no European government, present or future, is going to be bashful in accepting.

But many Europeans, as individuals, are far from convinced that our State Department rolls back communism when it establishes baseball clinics in Australia. It may be doubted that many Americans believe this either. Any difference in emphasis springs from the fact that we are the ones who foot the bills for that sort of nonsense.





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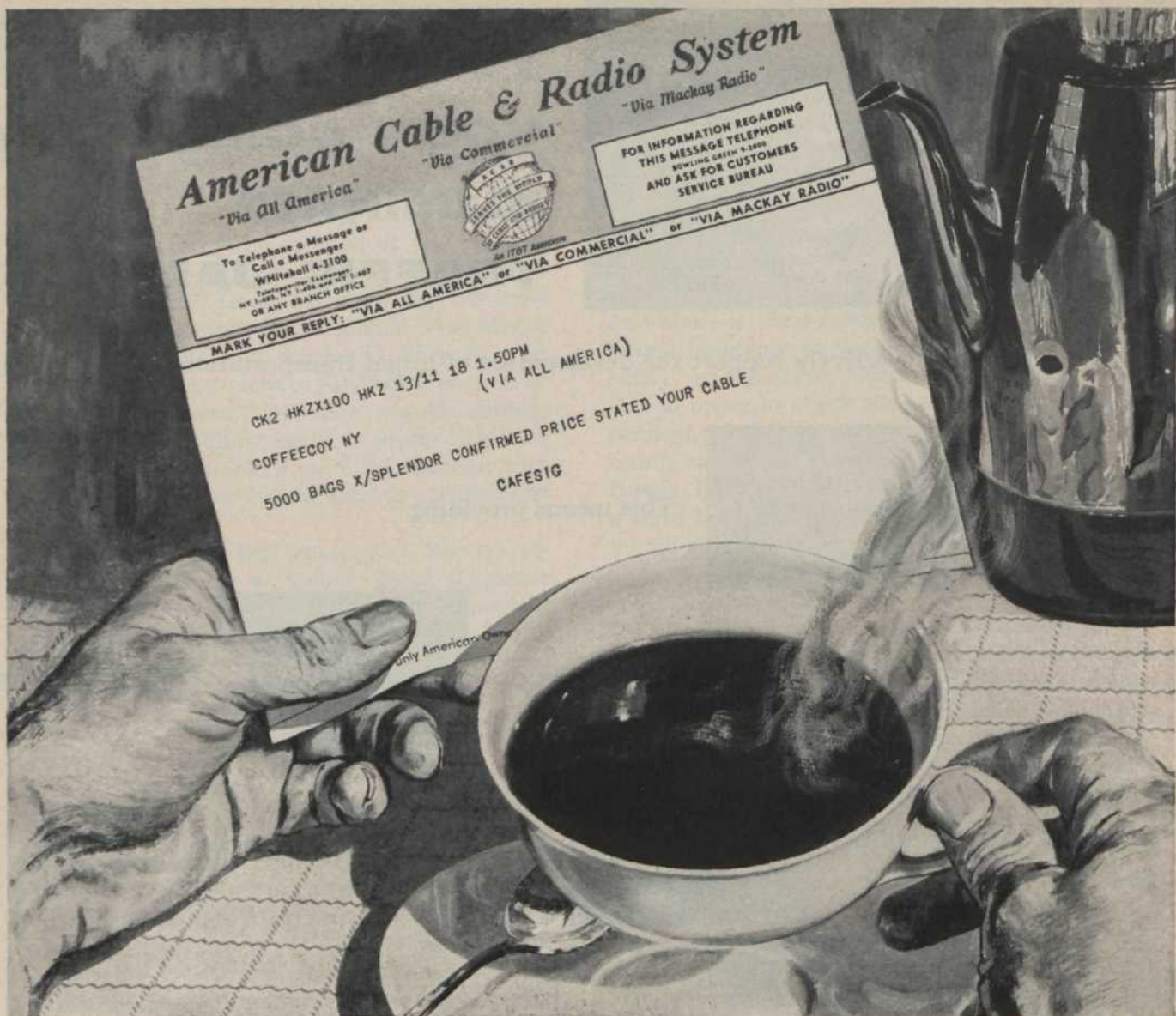


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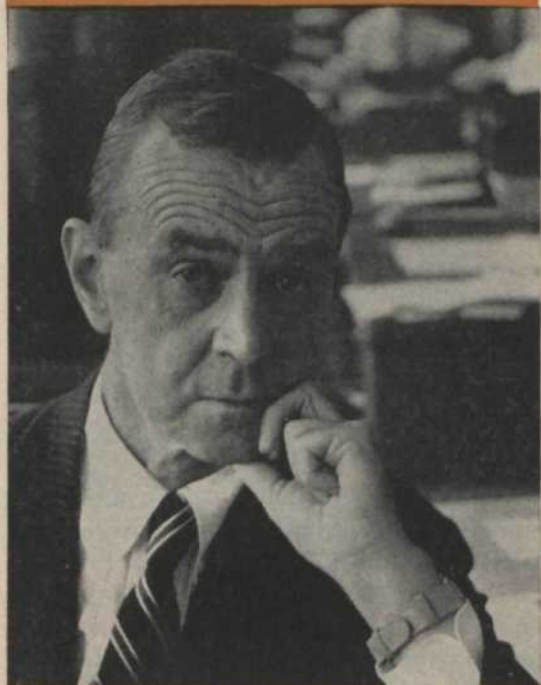
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# Trends

## of Nation's Business



## WASHINGTON MOOD

BY EDWARD T. FOLLIARD

### Why President believes Russia will keep her word on peace

HISTORIANS DO NOT confuse popularity with greatness in appraising men. In sizing up Dwight D. Eisenhower, they say it is too early to tell whether he will rank among the great American Presidents. They say that much depends on the outcome of his dealings with Russia in an effort to avert World War III.

Prof. Clinton Rossiter of Cornell University has described the thirty-fourth President as an "earth-smoother," and not an "earth-shaker."

But this very characteristic, he says, could in the end bring glory to the amiable Chief Executive as a statesman. In "The American Presidency," published last year, Professor Rossiter said:

"His influence on history is impossible to predict. The one question that history will insist that he answer successfully before admitting him to immortality is this: Can he go on in the next four years . . . to lay a solid foundation for several generations of peace? If peace does break out and stay with us for many years, surely he will be remembered fondly by a grateful world."

Professor Rossiter added that, if President Eisenhower does make good in this field, then "the credentials of presidential greatness may be revised in the next generation to permit an occasional earth-smoother to sit in glory with the earth-shakers."

What are the chances that President Eisenhower will be able to negotiate a disarmament treaty with the Russians, one that will permit the world to breathe easier and pave the way to reduced armaments and reduced taxes? He himself thinks the chances are good—better than they have ever been.

• • •

The average American may be forgiven if he remains skeptical. For years now, he has been reading about Harold Stassen's negotiations with the Russians, waiting and waiting for something bright and concrete to emerge from the wrangling, and he has become somewhat bored.

How then account for the President's seeming hopefulness in this respect? The answer is that he has information that the average American does not have, diplomatic and intelligence reports that tell of a new mood in Moscow.

Here, in a nutshell, is what the President's most trusted advisers on Russia have reported to him:

The Russian leaders have a genuine fear of a great war that would bring a rain of H-bombs down on their country.

Therefore, they are not only willing to enter into a disarmament agreement with America and Britain, they are eager to do so.

This attitude represents quite a switch. In Stalin's time, the Russians would have nothing to do with disarmament talk; in fact, Stalin would not even let the Russian people know about the horrors of the A-bomb and the H-bomb. There also has been a change in the men who took over after Stalin's death, the 11 members of the Presidium, who have Nikita Khrushchev as their chairman of the board.

When President Eisenhower proposed at Geneva in 1955 that the two countries agree to aerial inspection and an exchange of military blueprints, Khrushchev scoffed at the idea. He said it wasn't a disarmament proposal at all, but simply an intelligence or espionage scheme under which the Americans could peek into Russia's bedroom.

One of America's top authorities on Russia, and a trusted adviser of the President, says now that there was an explanation for Khrushchev's behavior at Geneva. He says at that time the Russians were



## Washington mood

afraid that inspection would disclose weaknesses in their country that they were trying to hide. But now, says this same authority, the Russians really are ready to do business.

According to President Eisenhower's information, the Russian leaders are motivated by the same reasoning as our own leaders. They agree that a nuclear war would be the supreme folly. They want to halt an arms race that is getting more and more dangerous and that could lead to Armageddon. Also, but not to the same extent as the Americans and the British, they are disturbed by the ever growing costs of armaments. They are dictators, true, but even so they would like to give the Russian masses more of the good things of life.

Trying to follow the disarmament negotiations—the proposals and counterproposals, the intricate schemes involving inspection areas, and so on—is most difficult, even for trained diplomatic reporters.

It is enough to say that what the Big Three are aiming at just now is a modest start, a first step agreement. Among the proposals that have been discussed are these: 1, a 10 or 15 per cent reduction in conventional weapons, along with some reduction in military personnel; 2, a limitation on the testing of the larger H-bombs; 3, an agreement to halt the production of nuclear weapons, an agreement, it is hoped, that would embrace countries which do not now have such weapons, and 4, establishment of mutual aerial inspection, coupled with some inspection on the ground.

President Eisenhower has a rocky road to travel in his pursuit of a disarmament agreement. This promises to be so even if the Russians turn out to be more obliging than they have been in the past. And the rocks, it would seem, might be thickest here at home.

Some hint of the trouble that could lie ahead was included in a recent statement by Admiral Arthur W. Radford, chairman of the Joint Chiefs of Staff. He said that the United States "cannot trust the Russians on a disarmament agreement or anything. They have broken their word too many times." This was a bold statement, because even as Radford made it his chief in the White House was pushing ahead with plans to negotiate with the Russians for a disarmament treaty.

Professionals such as Admiral Radford have long memories. They remember, for example, how America's armed forces were allowed to deteriorate after the Washington Arms Conference of 1921-22. That conference brought great praise for the United States and for President Harding, who called it. The conference was hailed as "the greatest forward step in history to establish the reign

of peace." In opening the conference, President Harding said the world was "hungry and thirsty for better relationships," that it was "staggering with debt," and he called on all nations to "outlaw war."

As it turned out, the United States was the only one of the naval powers that made a sacrifice at that conference. It scrapped warship hulls on which \$33 million already had been spent. The other powers scrapped nothing more than blueprints.

The thought that bothers such men as Admiral Radford, aside from the fact that Russia has shown that her word is no good, is that a disarmament agreement now might so relieve tension that Americans once more would starve their armed forces so that they are again reduced to skeletons. It is a fact that when Yanks let down, they do it in a big way.

What makes this situation unique in modern history is that our President also happens to be a professional man at arms. How does he feel about Admiral Radford's argument that we "cannot trust the Russians on a disarmament agreement or anything"?

The Chief Executive seemed to be answering the question when he told reporters at a recent news conference:

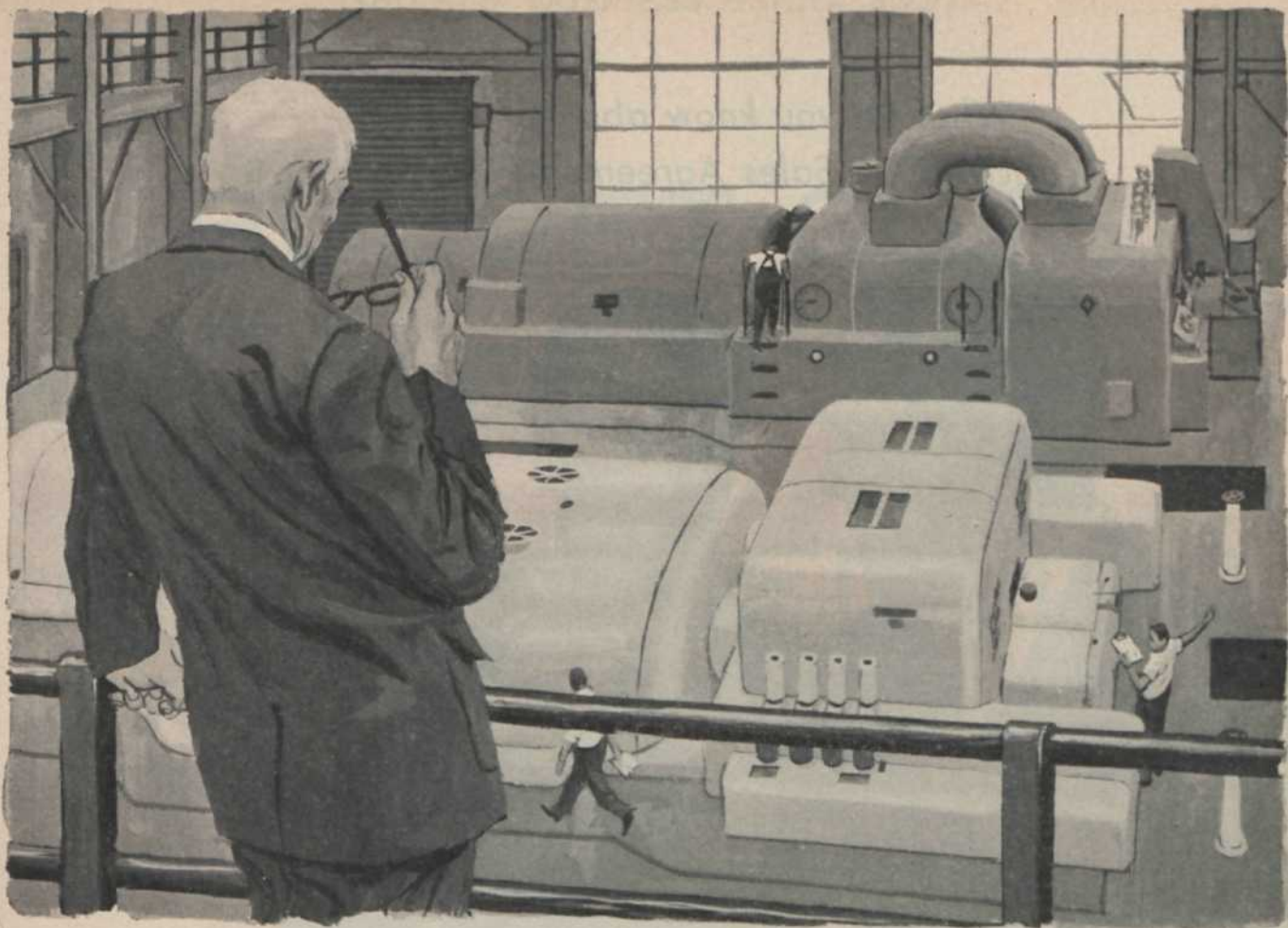
"Any nation that is facing a government which has the history of breaking treaties that we have encountered in our dealings with the Soviets [has] to be especially careful of the inspectional systems, systems in which we can have confidence. We must at the same time, though, keep our minds open and keep exploring every facet of this whole great field, to see if something can't be done. It just has to be done in the interests of the United States. I think our first concern should be making certain that we are not ourselves being recalcitrant, [that] we are not being picayunish about the thing."

About the time General Eisenhower was talking to the reporters, a scientist was telling a House committee that a Russian air attack with 250 atomic or hydrogen bombs would kill 82 million persons—roughly half of our population. It would have to be assumed that an American attack on Russia would be just as devastating.

But even this is not the ultimate in horror. The United States is now testing Atlas, the intercontinental missile that could travel from North America to Russia carrying a nuclear warhead. The Russians are known to be working on a similar long-range missile that they could fire at us.

Thinking of all this, President Eisenhower says with all of the solemnity he can command that "there is no alternative to peace." If it is true that the Russian leaders agree with him, maybe a live-and-let-live agreement on armaments is not too much to hope for after all.





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# BUDGET CUTS DON'T --- CHECK SPENDING

Two facts of governmental life explain why economy efforts must be continued

FEDERAL SPENDING for the year starting on July 1 stands a good chance of being higher than originally predicted in the President's budget.

This is in spite of a congressional economy drive which seems almost certain to cut some \$4 billion or more from the Eisenhower Administration's appropriations request, but which must be continued for lasting results.

This situation stems mainly from two facts of governmental life:

- Congress has only limited and indirect control over actual spending in the year immediately ahead.
- Many of the budget cuts Congress makes are mere bookkeeping technicalities which do not reduce spending at all. Others are equally illusory—cuts made with the knowledge that they will be canceled later, when the public interest in economy wanes.

There are sharp limitations on what Congress can do to limit spending in any given year. The reason is that there is not just one federal budget, but two. Unless you are clear on which budget is being discussed, you can be led into a lot of false assumptions.

One of the two federal budgets is expressed in terms of requests by the President for appropriations and other new spending authority. This is the budget with which Congress deals. Congressional action on this budget grants or denies federal agencies permission to obligate themselves to spend money sometime in the future. Some of this obligating authority must

be used entirely in the upcoming fiscal year, but much of it, especially for procurement and other long-term programs, can be carried over to the next year, the year after, or even later. For the year starting July 1, 1957, the President is asking \$73.3 billion of new spending authority.

The second federal budget states exactly how much each agency is going to spend in the year, whether under new spending authority covered in the new appropriations budget before Congress, or under spending authority voted by Congress in previous years but not yet used. This is the budget almost always referred to in newspaper stories, the one that determines how much money will actually leave the Treasury in the year and how much revenue is going to be needed to keep the government out of the red. For fiscal 1958, President Eisenhower has estimated this budget at \$71.8 billion.

The fact is, the size of this second budget is mostly decided by the executive branch—the President, his Cabinet, the Budget Bureau. This is because there are always huge carryovers of spending authority voted in previous years but never used. The carryovers, which account for much of the actual spending in any given year, are not affected at all by congressional action on new spending authority. In fact, the executive branch can use them, for the purpose specified by previous authority, to counteract congressional cuts in new spending authority. The President merely grants an agency the right to draw more money than originally



**\$73.3**

**billion**  
is what Ike  
asks for  
appropriations  
and other new  
spending  
authority.  
Congress acts  
on this one

**\$71.8**

**billion**  
is Ike's  
estimate of  
how much  
Administration  
will spend  
in fiscal '58  
either from  
new authority  
or previous  
congressional  
action



**\$ 70 billion**

**BUT there is  
backlog of  
of unused spending  
authority.**

**Administration can use  
these carryover funds,  
for purposes specified,  
to counteract cuts.  
Some \$24.2 billion  
of the \$71.8 billion  
budget will come from  
these carryovers**



planned from the carryover funds, and the cut in new spending authority doesn't hurt too badly.

The budget which Congress has been working on—and on which it always works—is solely and exclusively the budget dealing with appropriations and other new spending authority. When Congress cuts the budget, it is cutting the amount of money that federal agencies can obligate. It is almost certainly reducing government spending sooner or later, but there is absolutely no guarantee that its cuts will be felt in the fiscal year ahead. Actually, it is certain that the biggest cuts won't be felt in full.

So it boils down to this: Due to huge carryovers of unused spending authority from earlier years, the Administration can keep spending high despite congressional cuts in new spending authority.

That is exactly what is happening.

Another thing that is happening also happens every year, but because of public interest in economy right now, there may be a little more of it this year than in other years. This other thing is a cut which creates the illusion of a saving that probably never will take place.

The illusory cut is accomplished in any one of several ways. For example, Congress reduces an agency's request for new spending authority, and claims a saving. At the same time, though, it gives the agency the right to dip into some other funds to make up for the cut. Or perhaps Congress cuts an appropriations request with the clear understanding that it will vote more money for the program later if, as is likely, the money voted now is not enough. This has been the pattern for many years—big cuts when the country is watching appropriations action; extra funds voted later when economy sentiment has died down.

There are additional causes for our fiscal paradox. The costs of things the government must buy is going up constantly, and many of the Administration's original appropriation requests and spending estimates soon are inadequate. If the programmed goals are to be met, the Administration either must spend more from carryover funds or seek supplementary spending authority later.

Also, while Congress is cutting requested appropriations, it is also authorizing new spending programs beyond amounts in the budget. Bills now being pushed through for housing, veterans compensation, public works, farm aid, and other programs all go beyond the budgeted amounts. In an allied development, congressional opposition has already forced the Administration to back down by \$192 million on the amount of revenue it originally budgeted for increased postal rates, and Congress is by no means certain to approve even the \$462 million the Administration now seeks. Failure to vote any or all of this will increase spending in proportion to revenues, since only the net deficit figure is listed in the budget as postal spending.

The staff of the House-Senate Committee on Internal Revenue Taxation reported recently that actual federal spending might be as high as \$73 billion in the year starting July 1, instead of the \$71.8 billion that President Eisenhower predicted in the January budget message. It said it made this prediction despite cuts Congress is making in appropriations bills.

"The staff has reached this conclusion," the report said, "primarily on the grounds that there have already been, and are likely to continue to be, significant price rises which will necessitate increases in approved expenditure programs."

Noting that these price rises would be especially important in boosting military spending, the staff said total spending would be even higher if it weren't for the congressional appropriations cuts. It declared these cuts would have some effect on 1958 spending, but would have their greatest impact on spending in fiscal 1959 and later.

Similarly the staff of the House-Senate Economic Committee concluded that "budget expenditures for the fiscal years 1957 and 1958 may exceed the January estimates by \$1 to \$1.5 billion each year." It, too, attributed this to higher prices on government purchases. It, too, said current appropriations cuts "probably would not reduce expenditures significantly before fiscal 1959."

Administration officials have said only that they'll have a hard time sticking to the \$71.8 billion spending figure for the year starting July 1. They admit spending for the 1957 fiscal year, just ended, will be well above the January estimate of \$68.9 billion, probably up to as much as \$70 billion. A \$2 billion increase in the original estimates of defense spending has more than offset lower outlays planned on some other programs.

All this doesn't mean the government will be back in the red. Revenues also are rising, so there'll still be a surplus each year. But revenues don't appear to be rising as much as spending, so the surpluses won't be as big as predicted, and tax cuts may be pushed back again another year or more.

The chances seem good now that, by the time the books close on the 1958 appropriations bills, the House will have cut more than \$5 billion off the Administration's appropriations requests, the Senate about \$4 billion. The final House-Senate compromise figure will be somewhere between these totals.

But the Administration has a tremendous backlog of unused spending authority by which it can keep spending high in 1958 and 1959. The budget estimated that, as of June 30, 1957, the Administration will still not have spent some \$70 billion of previously voted spending authority. Some \$24 billion of the \$71.8 billion spending projected for the coming year—more than one third of the total—will come out of these carryovers, and more can be drawn from this source if necessary to overcome cuts in new spending authority. More than \$16.6 billion of the projected \$38 billion of military spending this coming year will come from unused carryover funds.

Some of the money to be spent next year was actually voted as much as five years ago.

History proves the ineffectiveness of congressional appropriations cuts so far as current spending is concerned. In 1955, Congress cut administration requests for new spending authority for the 1956 fiscal year by almost \$1.9 billion. Yet 1956 spending wound up \$4.1 billion above the original budget estimate. In 1956, Congress cut the administration requests for new spending authority for the 1957 fiscal year by some \$220 million. Yet (*continued on page 51*)



# HOW SECOND HALF LOOKS

Survey shows what businessmen expect sales, wages, prices and profits to do in the next six months

BUSINESS in the second half of 1957 will be good.

That's the expectation of business executives in a broad range of American industries as shown by a survey just completed by NATION'S BUSINESS.

►Forty-three percent of the businessmen participating expect conditions in their industries in the last six months of 1957 to be better than in the comparable period of 1956. (And 1956 was the best year so far for the nation's economy.)

►Fifty per cent look for conditions to be about the same as in the last half of 1956.

►Seven per cent believe conditions will be less favorable.

►Sixty-six per cent anticipate an increase in volume of sales.

An overwhelming majority (94 per cent) expect employment in their firms either to rise or to remain at about the same high level as in the final two quarters of last year.

These business leaders' views on sales, employment, prices, labor wage rates, profit per dollar of sales and other factors are seldom unanimous. In the machine tool industry, for instance, where some companies expect a business decline another expects sales to increase 20 per cent.

This explains why an industry sometimes appears to be making conflicting predictions.

The survey shows that business generally foresees a continued upward surge in prices, the cost of labor and the cost of other things it must buy, including materials.

In the face of this, the majority of businessmen expect their profit per dollar of sales to remain at about the same level.

Of those who expect a change, more expect a decline than expect a rise.

The survey covered small, large and medium-sized firms.

The general fields of business covered include manufacturing, retailing and wholesaling, construction, transportation, utilities, finance, and other businesses.

The survey points up a growing interest in cost reduction programs, a not unusual reaction in view of the continuing profit pinch.

It also reveals that taxes and tight money are regarded as the most serious roadblocks to business expansion at present.

Other obstacles to expansion cited include: the difficulty of obtaining rate increases in regulated industries; foreign competition; difficulty in obtaining competent supervisory and executive personnel.

Complaints about government spending and government competition with private enterprise also crop up.

The majority of the executives cooperating in the survey are presidents of their firms.

1

Industry conditions in the last half of 1957, compared to the same period in 1956, will be

BETTER

43%

NOT AS GOOD

7%

ABOUT THE SAME

50%

Optimism is the keynote in most of the replies.

Only seven per cent of the survey participants believe conditions in their industries in the next six months will not be as good as in the last six months of 1956.

Among the executives expecting a drop are some in mining, construction, railroad transportation and machine tool manufacture.

Executives looking for conditions to be better are in such fields as railroading, truck and farm machinery parts supply, contracting and engineering, public utilities, consumer finance, banking, life insurance, and retailing.

Executives who look for conditions in the next six months to be about the same are in such varied fields as construction, road building, food processing and ship repair.

The measure of all production and services, gross national product, now averages approximately \$430 billion.

The average for 1956 was \$412.4 billion, according to report of the President's Council of Economic Advisers.

Personal consumption is now running at an annual rate of more than \$275 billion. Last year's total was \$265.7 billion.



## 2

Sales in the  
second half of  
1957 will

INCREASE

66%

DECREASE

6%

REMAIN ABOUT SAME

26%

The outlook for sales is bullish.

Executives who expect sales volume to rise are in such fields as equipment manufacturing, steel production, life insurance, department and variety store retailing, food distribution.

Expected sales increases, where specified by percentage estimate, range from two to 25 per cent. Average expected increase is nine per cent.

Only six per cent of the participants anticipate a decline in their companies' sales volume. These men are in mining, railroading, construction, machinery manufacturing.

Expected decreases in sales range from three to 10

per cent. The average is five per cent. A mining company official who predicts a 10 per cent decline in his company's sales blames dumping of foreign production in this country.

Estimates of sales increases of 20 per cent or more are made by executives in companies engaged in industrial and institutional construction, aircraft accessories and machine tool manufacturing, and several other fields.

A number of participating executives indicate that they expect sales of their firms to rise, but do not estimate the amount of increase. Two per cent did not answer.

## 3

Employment  
in the second  
half will

INCREASE

33%

DECREASE

6%

REMAIN ABOUT SAME

61%

The majority of executives believe employment will remain about the same.

A small minority—six per cent—expect a decline.

Thirty-three per cent say they expect an increase in employment. Their estimates of the increase range from one to 30 per cent. The average is six per cent.

Estimates of a decline in employment are spread from two to five per cent. The average is three per cent.

The industries in which sharp increases are looked for include construction, consumer finance and metal fabricating.

Less impressive increases in labor demand are an-

ticipated in a number of other fields including food retailing and life insurance.

Executives forecasting a decline in employment represent several fields, including railroading and building materials. Fields where employment is expected to remain about the same include: coal mining, public utilities, food processing, electrical products and machinery manufacturing.

The shortage of additional properly qualified technical personnel troubles an engineering corporation. Keeping "trained, capable executive and junior executive personnel" is a big worry for the president of an Illinois store.

## 4

Prices  
of products or  
services will

RISE

48%

DECLINE

4%

STAY ABOUT SAME

44%

Congress' Joint Economic Committee notes that the rise in the wholesale price index has slowed. However, the committee also notes that price trends are upward for finished consumer and producer products.

Forty-eight per cent of the participants in the survey predict an increase. Forty-four per cent expect prices of their products or services to remain at about the same level as late 1956.

Only four per cent—including some executives in mining and flat glass manufacture—anticipate a price drop.

Estimates of decrease range from two to 11 per cent.

The average is four per cent.

Estimates of decrease range from two to 11 per cent. The average is seven per cent.

An additional four per cent did not answer the question or were uncertain as to what changes in prices might be.

Executives responding from some coal mining companies, public utilities, railroad transportation, construction, variety stores, supermarkets and other types of business predicted a price rise.

Executives anticipating stable prices responded from such lines as industrial cleaning materials manufacture, industrial construction, food processing, insurance and bonding. (continued on next page)



## 5 Wage rates will

RISE	DECLINE	STAY ABOUT SAME
74%	0	26%

The survey reflects some grumbling about continuing wage pressure from organized labor.

Nevertheless, the general feeling is that wage rates will continue to climb.

Among the 74 per cent who expect a climb are executives in coal mining, rail transportation, construction and various retail and manufacturing lines.

The percentage increase cited ranges from one to 11 per cent. The average is five per cent.

Nobody expects a decline in wage rates.

Executives who look for the wage rates to stay about the same represent companies in insurance, railroading, industrial cleaning products manufacture,

metal fabrication and merchandising, and some other lines.

One construction firm executive says "increases in labor costs not justified by efficiency" constitute the biggest roadblock to expansion in his business.

Another construction company official says that the biggest break his company could get would be "a stopping of wage increases year after year to the various construction trades. This is tending to elevate construction costs beyond the budgets of many prospective builders."

In answering this question, several businessmen mentioned problems caused by cheap labor costs overseas.

## 6 Other business costs will

RISE	DECLINE	STAY ABOUT SAME
72%	0	28%

None of the businessmen reporting thinks that costs will fall off during the rest of 1957.

Nearly three out of four executives estimate they will have to pay more this year than last for materials and services. One in four calculates these additional costs will stay about where they were in the last half of 1956.

A few of the executives in manufacturing, mining, milling and some leaders in retailing, insurance and bonding predict their costs other than labor will be approximately the same as during the second half of last year.

But most of those answering the survey in all cate-

gories—transportation, construction, utilities, mining, finance, insuring and bonding, retailing, manufacturing and miscellaneous—figure costs will go up.

Many of the companies report they have plans for cost reduction programs. Some say they will cut costs with sales efficiency, by reducing overhead, by improving their products or processing.

Some say they will reduce inventories and employment, cut down on paperwork, eliminate services, and watch maintenance and repair.

A metals products company had this comment: "We will be making every effort to cut costs, but no formal program is planned."

## 7 Has availability of funds affected expansion plans?

HAD TO CUT BACK	NO CHANGE	NONE PLANNED
14%	81%	4%

Tight money does not seem to be holding back the expansion plans of U. S. industry to any serious extent.

Only 14 per cent of the executives participating in this survey say it is hurting their firms' expansion plans.

Eighty-one per cent say it will have no effect, will cause no change in plans already made. One per cent did not answer this part of the survey.

Capital expansion plans of U. S. industry in general have been, are and will continue at a high level. That's indicated by performance since World War II, a period in which more than \$250 billions have been spent for expansion.

Capital spending this year is running at the rate of about \$37.4 billion. So far the figure is about nine per cent above a year ago. By the final quarter it's expected to reach an annual rate of almost \$38 billion. Most estimates are that these expenditures will continue high through at least 1960.

The president of a chain food company says, "Interest rates are slightly too high. But the slowdown is healthy if it is not extended too long."

On the credit side, the view is growing in Washington that there may be some further relaxation of the government's monetary policy but not pressure for selective credit controls.



## 8 Profit per dollar of sales will

RISE	DECLINE	REMAIN ABOUT SAME
16%	24%	58%

Profits continue as a major concern in all lines.

Fifty-eight per cent of the participating executives expect their companies' profits per dollar of sales to remain about the same.

Twenty-four per cent expect it to decline.

Only 16 per cent expect it to rise.

Two per cent of the executives did not answer this question.

Industries in which businessmen expect profit per dollar of sales to remain at about the level of 1956 include gas and electric utilities, construction machinery, food processing, and department stores.

Industries in which some feel that the profit margin

will decline include consumer finance, railroading, electrical utilities, abrasives and machine tool manufacturing.

Bullish executives are found in such fields as ship repair, electronics manufacturing and variety store merchandising.

Interesting (and typical of answers on all questions) is the fact that in the utility business there are about an equal number of executives who predicted a rise, a decline and stability on profit per dollar of sales.

The executive of a chemicals company said: "Sales will be up slightly but profits will be down."

## 9 Do you plan a special cost reduction program?

YES	NO	NO ANSWER
53%	43%	4%

More than half the business leaders participating say they expect to attack high costs in the months ahead by some special means.

Several businesses already have begun special moves to bring costs down. A gas utility, for instance, reported it began intensive cost reduction programs the first of this year. A brass, copper and aluminum fabricator said an over-all plan to reduce costs was begun nine months ago.

Many of the businessmen merely said their companies would "review all operations," or that the special program would entail "over-all frugality," or that they would "cut down on frills."

Some moves apparently will be further steps in a program already begun. A foundry, for instance, said "further plant and office automation" was the plan for the last half of the year.

Several executives said that cost cutting was a continuing program.

Specific strategies include: process improvement—a steel castings manufacturer; job analysis—a department store; cut down inventory and employment—a railroad; hold contests among employees—a food processor; consolidate facilities, automate, cut factory overhead, improve sales, cut paper work, install new equipment.

## 10

# ROADBLOCKS TO GROWTH

Taxes, government competition or regulation and lack of trained personnel, in that order are most often blamed for slowing business growth today.

"Taxes—statism," the president of a Texas bank answers when asked, "What is blocking business expansion?" A public utility executive demands that "government should remove itself from engaging in private enterprise and competing with tax-paying citizens." He adds, "Where such competition exists, all subsidies in the form of freedom from taxes, freedom from interest payments, preference and the like should be removed."

A manufacturer of wire and cable complains that

"hard money has certainly slowed the construction industry and outlays for plant and equipment." "Remove government competition and tax discrimination," says the president of an electric company, "and business will expand." A department store manager wants "easier money."

"The one roadblock we have is the difficulty of obtaining necessary rate increases," reports the president of an insurance company. "Customers' difficulty in financing purchases" handicaps a Wisconsin equipment firm.

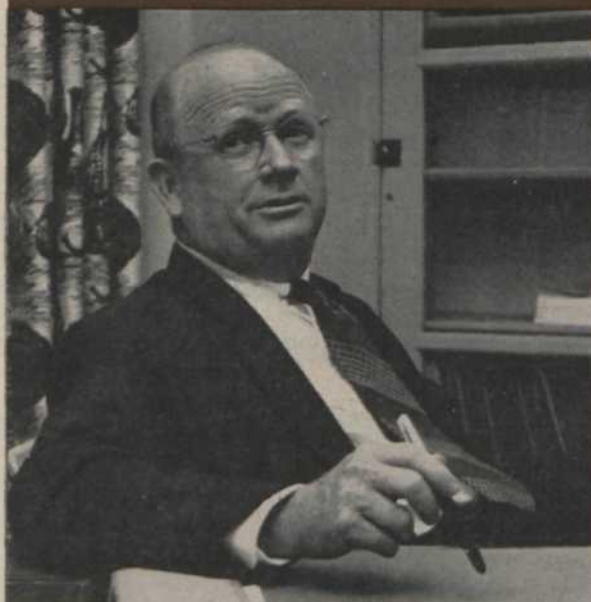
A transportation executive asks for equality of competitive opportunity on a sound basis.



# BUSINESS HOLDS KEY TO U.S. FUTURE

Why corporate management must assume ever increasing responsibility to the public

An interview with  
Dean Courtney C. Brown



HANS KNOPE-PIX

Courtney C. Brown, dean of the Columbia University Graduate School of Business, also has extensive experience in business and government. Once a petroleum economist, he also has served as assistant to the chairman of the board of the Standard Oil Company of New Jersey. In government, he was a vice president of the Commodity Credit Corporation, and, during World War II, served with the Department of State. He is presently traveling under the Eisenhower Exchange Fellowship Program to study the training of administrators among the lesser developed countries of the world.

## **What do you see in the future of the corporation?**

The opportunities are so great that I would hesitate to try to measure them. However, they could be missed. Modern professional management has one of the most difficult tasks today that any group of men ever had. They have new responsibilities—and are aware of them—but they have no clear-cut criteria for meeting them. Corporate law does not provide it. Economic theory does not provide it. We have got to find some way in which the enlarged functions of the corporation can be given clearer expression.

This is being done gradually by public statements of corporate officers. It is being done gradually by an occasional legal opinion. It's being defined, I hope, by some of the work of our leading business schools but we are a long way from clearly understanding this, and there are certain hazards.

In ascribing to the corporation functions that were not previously thought to exist, we are by implication saying that the corporation has a certain amount of power but we haven't said that this power must be made accountable in any specific legal manner. This doesn't worry me too much because I am convinced that it is made accountable to the people of the country, simply because a corporate manager has the sanction for his job as much from public esteem as from legal authority.

Let a great corporate leader lose public esteem and shortly he will disappear from the business scene. Corporate management knows this. It knows it's living in a glass bowl, so there is an effective check on this power; but the power exists, nevertheless, as long as it is not misused.

## **What role does the business corporation now play in American life?**

Perhaps the best way to get an answer is to think of it in terms of a society characterized by multiple institutions in which the corporation is playing an increasingly important role.

The great debates of the past, relating to liberty



and authority, had their focus on religious and political institutions. In our time they are coming to focus increasingly on business institutions. This evolving role of the corporation takes it beyond the limitations of the simple processes of producing and inventorying, distributing, selling goods or a service.

The corporation has a profound influence on all phases of contemporary life. It has an effect upon our political life in that it does much of the work in this country that is being done by government abroad, thereby limiting the powers of government here, appropriately. It improves the material standards of life, but to a certain extent at the cost of a uniformity that might not otherwise exist. It influences our tastes and helps to shape the pattern of our desires. And it does all this without being as conscious of it as it is of its more immediate contributions, such as the provision of security to those who are associated with it, the creation within the corporation of a good atmosphere in which to work.

#### **Will these nonbusiness functions continue to grow?**

I am a little disturbed by the phrase "nonbusiness functions" and yet I haven't a better one. To the extent that these various activities and interests become part of the healthy development of the business organization, it is hard to call them nonbusiness. They can be businesslike in their application.

It may be worth while to ask ourselves just why these extra-business functions are growing. It's not because we suddenly find a new group of people who have a broader vision or a different set of human characteristics. Perhaps it is because the motivations have been in a state of transition. The nature of the organization has had something to do with it also. There has developed a new time dimension in the affairs of the corporation.

When our economics textbooks were first developed, business transactions were thought of as a series of separate negotiations. You made a trade and that was the end of that. Then you would make another one. The idea of a continuity of flow of production, of established markets, of a reservoir of skilled labor, of a stabilized but hopefully continuous growth, these are things that have new time dimensions and suggest a continuing relationship.

Now, those who have a continuing contact with any organization—and the corporation is basically only a voluntary organization—begin to feel a certain sense of participation.

Today the participants who are most clearly recognized in corporate law are the management and the stockholders. This isn't adequate for effective management. A man who has been with the corporation for 25 years, whether he is on an hourly payroll or a salary, is a participant. He realizes it and everybody else does.

A supplier who has been supplying a corporation for a long time begins to feel a sense of participation in that corporation's affairs. So does the long-time customer. Even the community begins to feel this sense of participation and belonging. Intelligent corporate management recognizes this.

Today we find top business management recognizing a responsibility and obligation not just to stockholders but to labor, to suppliers, to customers, to

the community at large. This involves a shift in interest toward people as individuals.

If this interest in the individual is given intelligent focus, we could find the corporation having a profoundly beneficial influence on the development of the community—an influence that might be somewhat comparable to the influence of the intellectual movement called Humanism of 500 years ago.

#### **What steps will corporate leaders have to take to accomplish this goal?**

It is impossible, it seems to me, to recite a sequence of steps that ought to be taken or could be taken. I would cite only one important consideration and that is that the corporate management realize the full range of the opportunities that are beginning to become dimly discernible and equip itself with an awareness and breadth of interest that ranges far beyond the limitations of its own corporate affairs.

We see increasing evidences that corporate officers are becoming aware of this importance of people in the interest they show in promising candidates for higher executive posts. The so-called executive programs started as a kind of an academic brain-stretching exercise based on purely business problems. More recently and at the demand of the corporate officers themselves, these programs are spreading out into a refreshing re-examination of some of the humanities, including the classics.

#### **What implications does this have for executive training programs?**

It means that universities must, if we are to serve our most effective role, broaden our own field of interest and inquiry. The Columbia Business School faculty has within the past several months expressed a desire to add two new professorial chairs. One that would work with the evolutionary development of business institutions, not just a descriptive account but a close functional inquiry into why institutions of business have evolved as they have—why attitudes about business have changed from decade to decade and why the attitudes within business about itself have changed.

Alongside of that chair would be another in philosophy for business, perhaps occupied by a man trained in philosophy and not in business. A man who could take the thoughts of great minds of the past as they worked with those phases of philosophy related to politics and ethics and translate the significance of those thoughts to an understanding of the contemporary organizational setting within which business is living and operating.

If we succeed in developing the materials that we have in mind, I think it will make a significant contribution to some of these broadened ideas of the role of business.

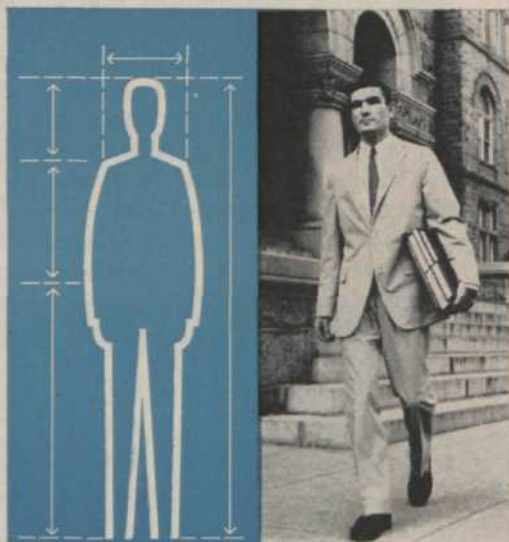
#### **Is the technical side of business—the skills more immediately applicable—being overstressed?**

No. I would say that there is room in the field of business education for further development of the technical and operational aspects. There is especial promise in the development of mathematical handling of operating problems.

I think we are going to make great progress in that, but the field of business (continued on page 62)



# YOU'LL HIRE THIS MAN IN '65



## Colleges are planning now to train specialist-generalists

IN ADDITION to the key abilities to make decisions and to work with people toward a common goal, tomorrow's business school graduate should have these qualities:

- Imagination, logic and insight into human nature, a familiarity with electronic data processing equipment and the ability to communicate lucidly.
- Ability to move from one department to another, to attack and solve problems analytically.
- Skill in many trades, mastery of at least one.

This appraisal is by deans of the country's business schools. Their task is to shape curricula which, in 10 years or so, will help turn out men with these qualifications. Precisely what such curricula will include is still under discussion but the part business can play in co-operating with the educators is already clear. The American Associa-

tion of Collegiate Schools of Business has compiled a list of things business can do:

1. Help increase the supply of teachers by setting up yearly fellowships for prospective teachers of business administration working for doctorate degrees.
2. Provide continuing grants to assist development of educational programs in business administration and meet the need for adequate salaries.
3. Cooperate with schools in developing and subsidizing research projects of both academic and managerial interest.
4. Serve on advisory committees to collegiate schools of business administration.
5. Permit young and promising executives to teach part time.
6. Provide some teaching aids in the form of cases and special problems

as well as equipment for instruction purposes.

7. Make more use of universities' resources in private research projects and training programs.

8. Provide opportunities for summer employment of faculty members in business administration and social sciences.

9. Set up more summer visitation programs to let faculty members learn firsthand about practical problems in business organization and management.

In addition business could help eliminate a paradox that is commonly voiced by educators today:

"Company presidents tell us they want broadly educated, well-rounded men, not specialists. Yet their recruiters say they need accountants and electrical engineers."

In an age of specialization, there's no question of the necessity for specialists. The future aim is to graduate a specialist-generalist. The plans now being laid are propelled by these factors:

► One out of every seven college students is majoring in business today, more than in any other academic field. Many of them stay on to take graduate work. More and more liberal arts colleges are offering business courses.

► By 1970, the number of young men and women pursuing business education in college will swell to 600,000, nearly double the business course enrollment today.

► The growth of business, too, is expected to be dramatic, with drastic changes in methods, products and problems, influenced by the behavioral sciences, the physical sciences and mathematics.

► There are some diverse standards, teaching methods and courses in both undergraduate and graduate education at present.

► Not only do more than half of college graduates change jobs within five years after graduation, but about a third of the graduate school students make their careers in fields other than their major.

► A number of educators as well as businessmen feel that teaching the how-to-do-it course in school is futile because of rapidly changing technology.

"A business administration program," observes Dean Maurice W. Lee, of University of North Carolina's School of Business Administration, "is like a new aircraft: It almost doesn't work; and when it does, it's obsolete."

Dean Richard Donham, of Northwestern's School of Business, says



flatly: "The traditional approach to business education described in most catalogs today is outdated."

A recognition that a sweeping revision in collegiate business education may be needed is seen in the start of two broad and separate studies financed by The Carnegie Corporation and The Ford Foundation. Analyses of the role of business education also are underway in individual schools. For instance, Dr. Joseph H. Willits, at Wharton School of the University of Pennsylvania, is completing a study of goals and ability of that school's curriculum to meet changing administrative demands of business.

Prof. Frank Pierson, of Swarthmore College, is conducting the Carnegie study. Its aim is to find out if the same type of training can meet employer needs for different managerial and administrative skills, student needs for growth and success, academic needs in carrying out schools' responsibilities and community needs for responsible citizenry. It will appraise practices and problems in business education, curricula at the wide variety of institutions and new teaching developments.

Prof. Robert A. Gordon, of the University of California at Berkeley, who is administering the Ford project, will also try to determine the part business education plays in the management process. His study will include a survey of business needs and practices in recruiting, training, and promoting managerial talent. Like Professor Pierson, he will also survey business schools.

Many executives feel that leaders are born, not made, that the management skills can't be perfected by formal academic curriculum. One educator, Chancellor Clark Kerr, of the University of California, noted recently:

"Business pursuits have historically been open to the energetic and the able regardless of their educational background. . . . The untutored and the adventurous have added greatly to the well of initiative in our economic system in the past and we may need them even more in the future. An M.B.A. (Master of Business Administration) should not be the only road to success."

But there is wide agreement that business school education is valuable and that business training has contributed to our productive progress. Demand for business school students is reflected in the fact that representatives of thousands of business firms visit hundreds of campuses to recruit graduates. And every employer expects his new employee to be trained to do something, whether

(continued on page 90)

LIEBERMAN-BLACK STAR



“The business education program will be broadened without losing specialization. There will be more training in recognizing human resources.”

—Dean Paul Martin Green, *Illinois*

COYNE-BLACK STAR



“Business schools will have to do much more to help students develop a set of ultimate values appropriate for them in society in years ahead.”

—Dean Stanley F. Teele, *Harvard*



# LABOR FORCE SHOWS NEW TREND

Predicted labor supply pinch may not develop. Here are factors suggesting a rise

A LABOR SHORTAGE during the late 1950's and early 1960's, widely predicted a few years ago, may have been a statistical mirage.

Predictions were based upon two factors: 1, an increasing number of nonproducing consumers due to the post World War II baby boom, and the increasing longevity of retired persons, and, 2, a diminishing number of workers because of the low birth rate of the 1930's.

The 24-54 year age group, which supplies two thirds of our labor supply, now makes up 39 per cent of total population, but will drop to 37.5 per cent in 1960, 35.5 per cent in 1965 and 34 per cent in 1970.

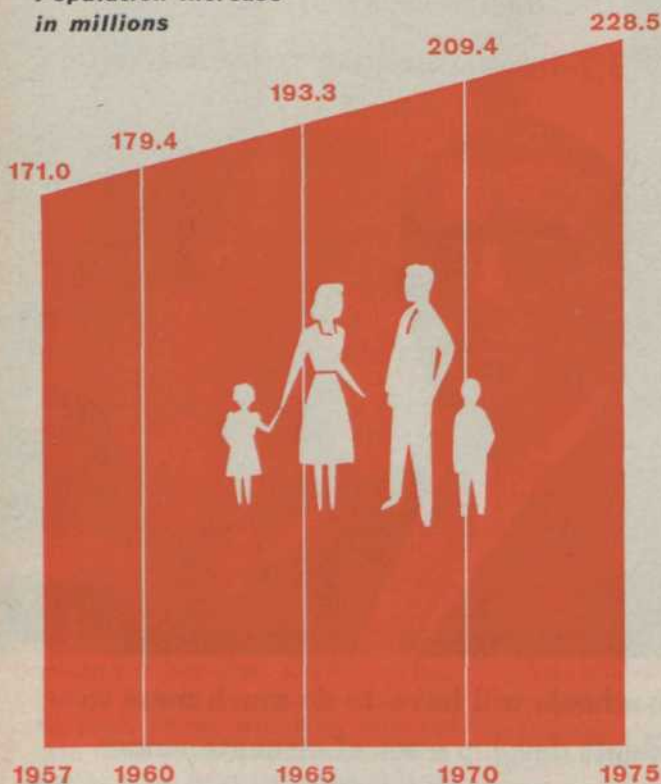
Population is following predicted trends, but labor supply is not. The proportion of women, particularly those aged 35 and over, obtaining or seeking employment is much greater than had been anticipated. Women now make up 31.5 per cent of the total labor force. Boys and girls aged 14-19, and men aged 20-44 are also entering the labor market at increasing rates.

The 1957 labor force totals 70.8 million, with 65.3

1

**Steadily increasing population.** Our population now grows 3 million a year, with 4.2 million births, 0.4 million net immigration, and 1.6 million deaths. The annual population increase is expected to reach 3.5 million in 1965, and 4 million in 1975, as the bumper baby crop which followed World War II raises its families.

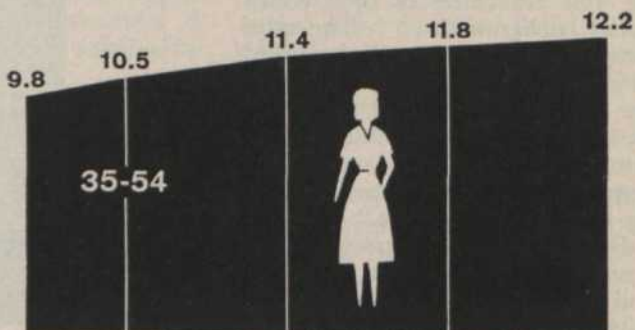
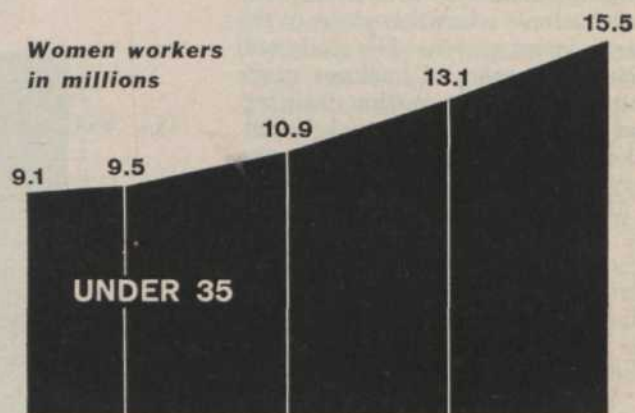
**Population increase in millions**



2

**More women workers.** Twenty-seven per cent of all females aged 14 and over were in the 1940 labor force, but the proportion rose to 32 per cent in 1950, is now 36 per cent, and is expected to reach 38 per cent in 1965, and 40 per cent in 1975.

**Women workers in millions**





million persons in civilian employment, 2.8 million in the armed forces, and 2.7 million unemployed. Current population and labor force trends indicate the total labor force will reach 81 million in 1965, and 96.1 million in 1975.

Labor force participation, or total persons in civilian employment, the armed forces, and unemployed was 42.9 per cent of the total population during 1947 and 1948. The percentage then dropped steadily, reaching 41.4 per cent this year, lowest level since 1933. However, population distribution and labor force participation trends for sex and age group classifications indicate a leveling off this year and in 1958, followed by an upward trend, reaching 41.8 per cent in 1960, 41.9 per cent in 1965, and more than 42 per cent during the 1970's.

The next decade will probably have labor shortages in specific trades and professions, and in certain geographical areas, but the shortages should be less severe than at present. Reduction of our armed forces would release additional persons for civilian employment,

and decreased armament expenditures would increase the proportion of workers producing goods and services for the civilian market. Also alleviating the labor situation is the proportion of workers having two jobs, which increased from three per cent of the employed persons in 1950 to five per cent now.

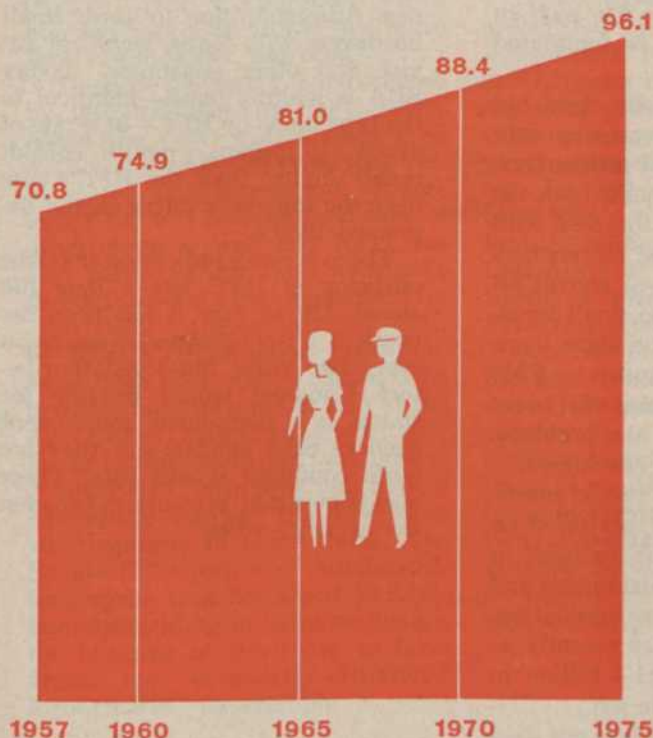
Providing jobs for this rising tide of workers will require heavy capital expenditures by business. Assuming \$15,000 is needed to supply land, buildings, machinery, and equipment for each new job, expenditures to provide jobs for the increased labor force during the next seven years should total at least \$150 billion, and another \$225 billion between 1965 and 1975. These expenditures do not include the huge sums needed to replace obsolete equipment used by a labor force of the present size, nor make any allowance for reductions in our 2.8 million armed forces, which would add additional persons to the civilian labor market.

Features of this rapidly expanding labor force are shown graphically below.—FRED D. LINDSEY

### 3

**Accelerating growth.** Annual labor force growth to 1965 should be 40 per cent greater than that since 1950. Between 1950 and 1957 the labor force grew 900,000 per year, but from 1957 to 1965 it is expected to increase 1.27 million per year, and from 1965 to 1975 is expected to expand 1.5 million per year.

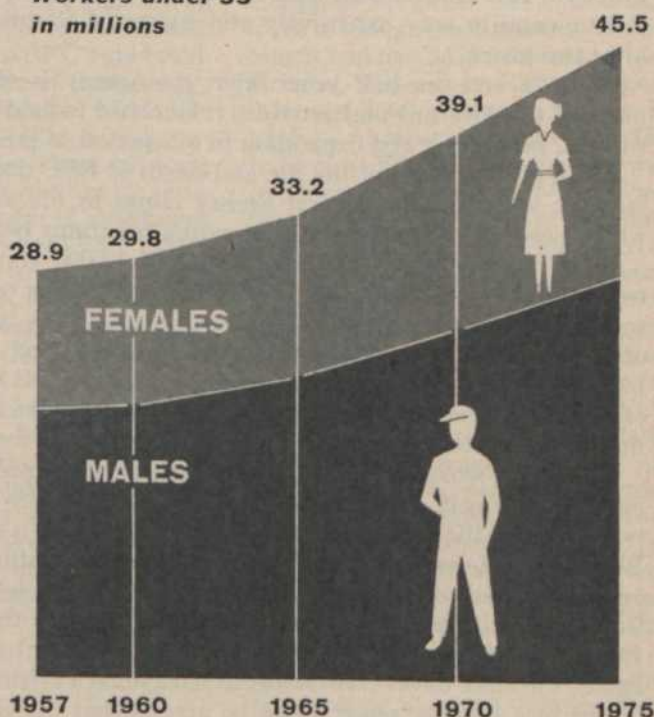
**Labor force  
in millions**



### 4

**More younger workers.** Persons under age 35 now constitute 41 per cent of the labor force, those 35 to 54 make up 42 per cent, and persons aged 55 and over are 17 per cent. These percentages should remain relatively stable until 1965, when the proportion under 35 should start growing, reaching 44 per cent in 1970, and 48 per cent in 1975. Practically all the percentage loss will be in the 35-54 age group, as the proportion aged 55 and over should remain relatively constant.

**Workers under 35  
in millions**





RFC  
1931-1957



## RFC BOTH DIES AND EXPANDS

ON JUNE 30 the Reconstruction Finance Corporation became only a memory and hundreds of cases of stored records.

But its soul goes marching on—demonstrating what happens when the federal government undertakes a program of temporary financial aid.

Congress created the Corporation after President Herbert Hoover had suggested, on Dec. 7, 1931, that an "emergency reconstruction corporation" be set up to help cope with the depression. In making that proposal, Mr. Hoover said that it may not be necessary to use such an instrumentality very extensively and suggested it should be liquidated after two years.

Now, 25 and one-half years later, the agency is officially dead but many of the governmental activities it launched to fight a depression stay with us, prospering and expanding in our period of greatest prosperity.

All in all, the story of the life and death of RFC documents both the tenacity with which a federal agency clings to life and the ease with which new federal lending and spending programs become entrenched.

In its heyday, the RFC had a staff of 12,000 employees spread all over the country. No financial operation was too big or too small for it, too complex or too simple. The records RFC leaves behind show loans of as little as \$20 to drought and flood victims, and as much as \$200 million to build a wartime steel plant in Utah. RFC alumni still boast of the speed and daring with which the agency attacked the problems first of depression, and then of war, with its always ready checkbook.

But as its books close, RFC bears little resemblance to its old multi-billion dollar self. Only about 100 of its employees are left, scattered on two floors of the luxurious 13-story office building it built for itself in Washington. Less than \$100 million of its loans are still outstanding and only a handful of its once vast physical assets are left for liquidation. Considering its once tremendous size and the fact that as recently as 1953, when Congress signed its death sentence, it had \$1.4 billion in assets, the close-down crew seems to have done a creditable job.

But in a broader sense it can be argued that the RFC has not died and will not die in the foreseeable future. That's because many of the projects it brought into being have gone on in other federal agencies, often expanding enormously over the years. Here's a rundown on a few RFC-begun programs now a part of government operations:

**Business loans**—One of RFC's depression-spawned functions was to make loans to small business. In four years, 1934-38, about 9,000 business loans totaling almost \$500 million were made—more than 80 per cent of them for less than \$50,000. Operating with broad discretion, the agency was able to provide a loan as big as \$12.6 million for Postal Telegraph and as small as \$1,000 to help a research student set up a stock of white mice.

When Congress ruled in 1953 that the time had come to begin to lay RFC to rest, it included in its legislation a provision for a Small Business Administration to assist small businesses with loans, technical advice and other assistance. Today SBA is making loans—identical to the type made by RFC—at a rate of about \$15 million a month, considerably higher than the RFC's rate over the four-year flurry in the depressed 1930's.

There is every indication that this offspring of RFC has a long life ahead. Up to now it has been dependent on congressional extension every two years, but legislation before Congress would provide for status as a permanent government agency. SBA officials say they are quite confident it will pass. There also is constant pressure to broaden the agency's scope.



## The \$8 billion Commodity Credit Corporation



## Federal National Mortgage Association's mortgage buying



## The Export-Import Bank



**Farm loans**—Many aspects of the big present-day farm price support and farm assistance programs first saw the light in the RFC offices. Jesse H. Jones, who headed RFC during its 13 most active years, tells how they got started in his book, "Fifty Billion Dollars."

"One afternoon in 1933," he relates, "President Roosevelt called me to the White House and, as soon as I entered his office, said: 'Jess, I want you to lend ten cents a pound on cotton.' That, notes Mr. Jones, is how the RFC came to take "its first really deep plunge into agriculture." And that is how the Commodity Credit Corporation, which now has nearly \$8 billion tied up in farm commodities, was born.

To make the cotton loans ordered by the President, the RFC established the CCC with a meager \$3 million Congress had given the President for agricultural aid. Before long CCC was helping producers of other crops as well and RFC was also parceling out farm assistance through several other agencies.

In 1938, Congress cut the CCC, by then a billion-dollar operation, loose from RFC and it assumed its present status as a major unit of the Agriculture Department and a major factor in administration farm policy.

Other RFC farm programs to help agriculture through the depression still continue in some form. The Rural Electrification Administration, which now has about \$2.6 billion outstanding in loans to finance the bringing of electricity to farm areas, was originally financed through RFC, for example.

**Housing**—Back in 1938, the Federal National Mortgage Association, better known as Fannie Mae, was established in RFC to provide a market for housing mortgages which had been insured by the Federal Housing Administration but which, in those difficult days, could not be marketed by lenders. In its first nine years, Fannie Mae bought 67,000 FHA-insured mortgages totaling about \$272 million. While Fannie Mae was buying FHA mortgages on new homes, the RFC Mortgage Company was buying insured mortgages on old homes and, later, veterans' mortgages.

Today, these RFC-born activities are carried on on a vast scale by an independent Fannie Mae—housed, as it happens, in the RFC's old building along with some of the agency's other progeny. Fannie Mae, like many of the other children, is growing. In 1950, when it was cut loose from RFC, it owned slightly more than \$1 billion worth of mortgages. Last April 30, it owned \$3.5 billion worth—a grand total of 437,000 FHA and veterans' mortgages.

Congress this month was putting the final touches on legislation to expand Fannie Mae's activities by another \$1 or \$2 billion. The expansion would be both in the purchase of regular government insured home mortgages and in the acquisition of mortgages on "special assistance housing"—such as homes for elderly people and service men, and cooperative ventures.

**International finances**—The Export-Import Bank of Washington, now a robust independent operation, was originally financed largely by RFC. It was first intended as a means of promoting trade with Russia, but this arrangement fell through and the bank was re-established on an expanded basis to operate in a broader international field. Eventually the RFC held \$174 million worth of preferred Export-Import Bank stock. In fiscal 1957, the bank loaned \$1.14 billion.

During the war, the RFC's international financial operations were numerous and complex.

RFC received permission from Congress in June, 1941, to make loans to foreign governments. Before long it had lent \$425 million to Great Britain. (A recent Export-Import loan was \$500 million to Britain in 1956.) Another big loan was \$50 million to Russia. But lending was by no means its only activity. They extended into all phases of economic warfare. It doesn't even take a great deal of imagination to see a relationship between some RFC wartime operations and the cloak-and-dagger activities now generally associated in the public mind with the Central Intelligence Agency. One of RFC's subsidiaries was the United States Commercial Company, whose job was to go into neutral countries and buy, at whatever price, raw materials and finished products the enemy was known to need. According to Mr. Jones, "preclusive buying involved dealing with questionable characters as well as with men of integrity. It led to private fees, sabotage, black markets, hidden deals under the table, secret funds and, at times, slick stunts which smack of cloak-and-dagger drama."

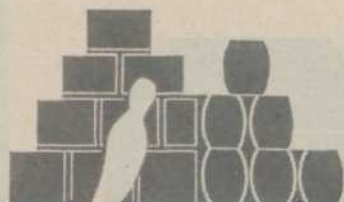
(continued on next page)



## The seeds for many public works

## General Services Administration's stockpiling job

## Disaster loan program



**Public works**—In the RFC's many activities in this field during the depression can be found the seeds of such varied present programs as the community facilities program, the big new highway program and the proposed aid to education program.

RFC made self-liquidating loans to cities and states for a great number of public works projects. As Mr. Jones puts it, "today the nation is dotted, from coast to coast and from the Rio Grande to the Great Lakes, with . . . great bridges, electric power plants and lines, express highways, waterworks, sewer systems, college dormitories, modern low-rent housing, aqueducts, vehicular tunnels and other facilities" financed by RFC.

Thus, in the RFC's college dormitory construction can be seen the parent of the present \$750 million college housing program conducted by the Housing and Home Finance Agency. In the financing of such self-liquidating projects as the Pennsylvania Turnpike and the Oakland Bay Bridge in California can be seen the seeds of today's multibillion dollar federal highway program.

The array of community facilities—water works, sewers and the like—financed for communities by RFC in the depression can be viewed as the predecessors of the present \$48 million revolving fund to provide interest free loans for the planning of such facilities and \$100 million for direct loans for public works.

And the RFC's depression loan of \$26 million to Chicago to pay its school teachers, and the Administration's current proposals for payments to states to finance school construction can be viewed as blood relations.

**Stockpiling**—RFC got into stockpiling early in World War II with its Metals Reserve Company, which spent nearly \$2.7 billion on subsidies, premium payments and other devices to encourage production of needed metals and minerals; the Rubber Reserve Company, which began building a tremendous stockpile of vitally needed rubber long before Pearl Harbor, and the busy wartime Defense Supplies Corporation.

Today stockpiling is a big activity, carried on largely by the General Services Administration. Federal supplies of critical and strategic materials represent an investment of more than \$7 billion.

During the war RFC also played the main federal role in providing the materials needed to build the military machine. It carried on the \$700 million synthetic rubber industry development, built the nation's only tin smelter, and even conducted the paper and rubber scrap programs.

**Disaster loans**—Government loans to sufferers in floods, hurricanes and other disasters date back to 1934 when the RFC received authority to enter the field. In 1937 this activity was centered in the Disaster Loan Corporation, an RFC subsidiary set up to help victims of the Ohio-Mississippi Valley floods. The Disaster Loan Corp. was dissolved by Congress in 1945, but RFC itself continued to make catastrophe loans as needed. All told, about 25,000 disaster loans, totaling more than \$50 million were made.

Today many branches of the government are engaged in disaster loans and other relief. The Small Business Administration alone has issued more than 5,000 such loans, totaling \$63 million. The President makes disaster loans to the states through the Federal Civil Defense Agency. The Agriculture Department has provisions for helping disaster-hit farmers. The housing agencies provide trailers and no-down-payment mortgage insurance where homes have been demolished.

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This listing of some of the RFC activities which live on in other agencies does not mean that a good number of its activities aren't either dead or dying. For example, government financial aid to banks, one of the primary purposes for which RFC was established, has long since stopped. Among assets to be liquidated there is less than \$5 million worth of preferred stock in two banking institutions.

Another basic RFC activity during the depression was lending to railroads. These loans totaled more than \$1 billion and, according to Mr. Jones, saved a third of the railroads from receivership or bankruptcy. Also many of the wartime programs are gone without a trace.

But there is one tangible reminder of the hectic wartime operations on the RFC's final ledger, and it will now become the GSA's concern. That is the government's title to the famous Howard Hughes flying boat, in which the government invested some \$18 million. One of these days, GSA may find a way to write it off the books, and another of RFC's many offspring will have finally died.—ALAN L. OTTEN



# WORLD'S MOST GENEROUS BANKER

## Federal lending program climbs while interest rates stay low

UNCLE SAM, already the world's champion lender, will get deeper into the banking business than ever in the months ahead.

Congress has been making new commitments for loans and guarantees to home buyers, farmers, veterans, foreign governments and small businessmen which the Budget Bureau figures will total about \$22 billion and cost nearly \$1.5 billion this fiscal year.

This is about \$1 billion more than the credit load last year and about \$1 million more in costs.

Today, loans, guarantees and insurance in federal lending agencies, plus the authority to get capital from Uncle Sam towers at more than \$250 billion.

In addition to acting on new credit schemes, the lawmakers in the days ahead will consider an Eisenhower Administration proposal to raise the interest rate on many federal loans to the rate the Treasury has to pay to borrow money.

Congress can curtail federal lending operations and adopt the Eisenhower proposal to do away with the low interest rates. However, by some recent actions, Congress has indicated that it will expand government banking operations and continue hidden subsidies:

It has already approved greater sums for some loans than the Administration requested.

It has already defeated a plan to make borrowers under one lending program pay as much interest on federal loans as the Treasury pays to borrow.

Even the current economy drive in Congress has skirted around the federal lending issue.

So, apparently, dilation of government credit operations will continue despite critics' complaints that:

- ▶ Some federal lending agencies serve only a few people at the expense of all taxpayers.
- ▶ Credit is given to some without adequate equities or high enough charges to pay for administrative costs.
- ▶ Many of the activities could be handled by private financial institutions.
- ▶ The operations of some agencies go beyond their original purpose.
- ▶ Easy federal money tends to encourage the irresponsible promoter, destroy integrity and breed windfalls.

▶ Cheap government credit gives its borrower unfair advantage over his competitor.

Uncle Sam got in the lending and guaranteeing business when the Federal Reserve system was set up in 1913. Then the Federal Land Banks were established in 1916. Now more than 100 agencies or entities are engaged in lending, insuring or guaranteeing.

An exact figure on the volume of loans, guarantees and insurance in lending agencies along with their authority to get capital from the Treasury is impossible to isolate because the Veterans Administration, for instance, has no limit on the amount it can lend or guarantee. Direct obligations would be less than the \$250 billion. In the case of bank deposits, the Treasury is authorized to lend comparatively small amounts to the Federal Deposit Insurance Company and the Federal Savings and Loan Insurance Corporation. But since both were created by Congress to insure the savings of citizens, the amount of deposits becomes a contingent liability of the federal government.

Not counting these deposits, the outstanding loans, guarantees and insurance for major federal credit is expected to reach more than \$85 billion by next June 30. This would be a sharp upturn from \$76 billion last fiscal year and \$68 billion the year before.

Many of the government's financial entities have been incorporated to impose uniform and businesslike operation in line with recommendations of the Commission on Organization of the Executive Branch of the Government (Hoover Commission).

Some, like the Federal Reserve Banks, also have become self-supporting, meaning beneficiaries of the programs have made proportional payments to the government to retire the agency's capital stock owned by the government. The Federal Reserve Banks and Federal Land Banks are examples of mutualized agencies. This has resulted in certain mutualized agencies paying their own administrative costs from earnings, a distinct saving for taxpayers.

For most credit activities the authority to make new commitments is in the law that set up the programs rather than in annual appropriation acts. For instance, the lending power of the Export-Import Bank and the mortgage insurance authorizations of the Federal Housing Administration are prescribed in the statutes governing the programs.

Since new commitments can usually be financed out of uncommitted balances of past authorizations or out of collections on outstanding loans, few programs have to request new authority to make loans each year.

One of the major new lending ideas now before Congress is part of the school construction proposal. It has a provision for federal purchase of up to \$750 million of bonds of local school districts with marginal credit ratings.

Though the school program's chances of enactment are dim, new money for other lending schemes is processed without a hitch. Among them:

**The Federal National Mortgage Association**, which buys and sells government backed home mortgages in the secondary, or resale, market. When Fannie Mae, as the agency is known, borrows from the Treasury or gives direct assistance to special mortgage programs, such as aid to military housing, that counts as government lending. In fiscal 1956, \$306 million was committed for Fannie Mae (continued on page 89)



# How to organize for growth

Answers to three questions will enable you to decide what your firm should do

IN TODAY'S highly competitive market, organization can be a critical factor.

There are several reasons for this:

- ▶ Proper organization provides for effective, balanced performance of all work that must be done to carry out the plans of management.
- ▶ Organization planning helps to streamline operating activities, provides for balanced and effective management, and eliminates possible overlap, duplication and personal frictions.

▶ Good organization will build into every management job decentralized authority and responsibility for both short and long range planning.

▶ The proper kind of organization will stimulate initiative and creative effort by requiring managers at all levels to make management decisions and broaden their range and capacity.

▶ Organization facilitates growth and expansion. Some companies grow in a series of disruptions, periodically upsetting personnel and the existing organization. Organization planning, properly undertaken, will eliminate many of these disturbing influences.

In times when most companies are either seriously considering decentralizing and diversifying or have already moved in this direction, questions arise as to whether growth requires organization on a line, staff, line and staff, committee, geographic or product basis—whether decentralization should be functional, federal, administrative, vertical or horizontal.

Much of this uncertainty and confusion can be eliminated if we can answer three questions:

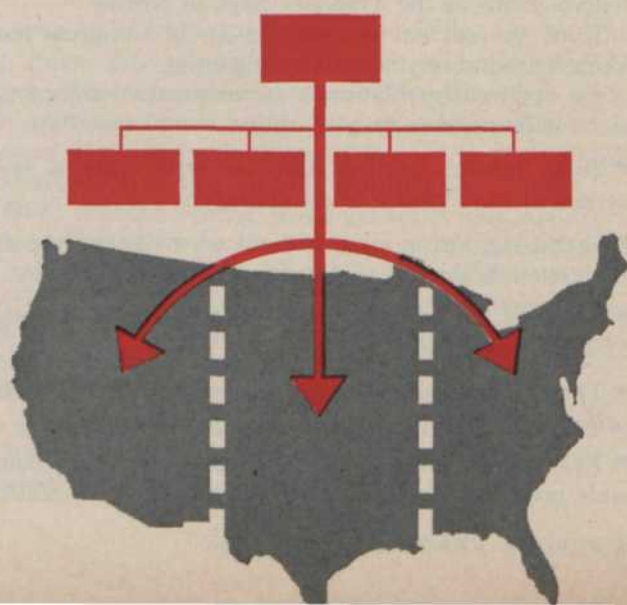
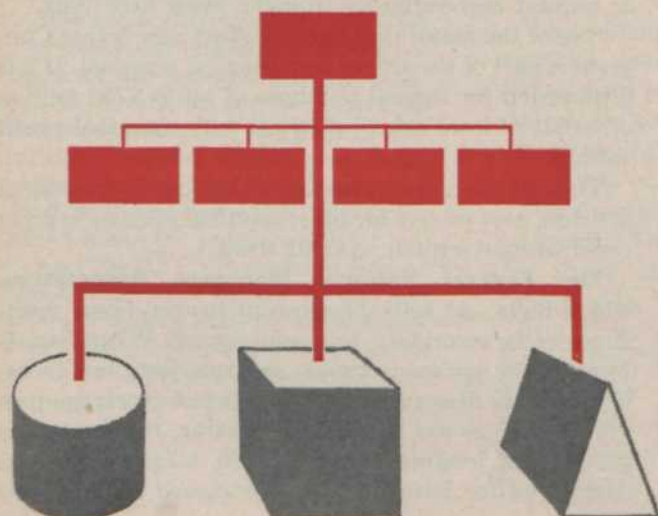
- ▶ What kinds of organizations actually exist?
- ▶ When should an organization be changed?
- ▶ How should the change be made?

Study along these lines will enable a company to determine which organization is best for its particular combination of people, products, markets and operating conditions, and its plans for decentralizing and diversifying.

## Kinds of organization

As with all really fundamental principles, the answer to the first question is simple. There are only two basic kinds of organization, and every company grows from one to the other. Just as a child matures from infancy through adolescence into adulthood,

**Development usually follows** a pattern. Most companies build from a functional type into divisionalization—either product (left) or geographic

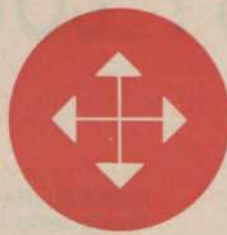




**When to change** is indicated by five key factors:



Size



Diversity



Cost



Production  
complexity



Market  
facts

every business that grows and expands successfully develops, in successive stages, from a *functional* to a *divisionalized* type of organization, and accomplishes, at the same time, a move from a predominant centralization of authority to decentralization.

► **Functional organization:** The functional organization structure is the building block of organization from which all other forms of organization are built. It is formed by grouping all the work to be done into major functional departments. As a result, all related work of one kind ultimately is managed by one top coordinating head. For example, in a functional organization, one manufacturing department, under a manufacturing executive, is responsible for all manufacturing done in all plants, and for all product lines. The same is true for marketing, engineering and other functions.

The small functional organization, or one which is called upon to handle only a limited product line and which has a restricted geographical dispersion, has many advantages. One is that it facilitates specialization. By throwing its resources into one specialized type of work, or by emphasizing the engineering, manufacturing and sales of one specialized product, even the smallest company can compete with the big corporation on quality, delivery and price.

Paul Dean Arnold, for example, had an idea he could make bread more tasty and appetizing. In 1940, he started a small bakery in Stamford, Conn., and produced a home-baked white bread. Operating within a functional organization, Arnold Bakers, Inc., has been able to specialize and to compete successfully with the conventional loaf even though its bread commands a premium price.

The functional organization is more economical, because it requires only one group of manufacturing facilities, one sales function and one set of managers; hence both capital and administrative expense are held to a minimum.

► **Divisionalized organization:** The divisionalized organization structure is the second major kind of organization. This breaks the functional organization into relatively small, self-contained administrative units. With proper decentralization, each such division is capable of competing independently with its own line of products in its own markets, both against outside enterprises and even other divisions inside the com-

pany. In essence, divisionalization is an organizational means of retaining the advantages of the small, functional type of organization, while minimizing the disadvantages that come with increasing size, diversity and dispersion.

Divisionalization establishes a series of small, self-sufficient functional units which can tap the combined resources of the corporation through its central headquarters and staff and yet can compete on an equal footing with the flexible, dynamic smaller organization. This form of organization facilitates growth and diversification because products can be added, or new territory added without distorting the basic structure.

Divisionalization may be accomplished either in terms of product or of geography.

1. *Product divisionalization* involves providing each major product with the functional groupings it needs to operate as an integrated small business. Product divisionalization focuses on the product itself the total resources of one complete administrative unit. Manufacturing, sales, engineering, finance and personnel are dedicated to the interests of one or a few related products. This brings great emphasis on product development, market exploitation, engineering improvement, and personnel development in terms of the needs of each individual product.

2. *Geographic divisionalization* subdivides the company into regional units, each relatively self-sufficient in manufacturing, marketing, and the other functions it needs to operate as a relatively autonomous business within the framework of the company as a whole.

Geographic divisionalization, in effect, sets up separate business units to cater to the needs of local markets. It makes possible fastest service, undivided attention, recognition of local needs and traditions.

## When to change

Every company starts out with a functional organization structure, because this is the simple, direct and economical way to organize. Sooner or later, however, the enterprise outgrows this type of structure. Key factors indicating a move to divisionalization are:

► **Size.** As the functional organization grows, it can increase only by adding additional layers to the pyramid that goes to make up each function. As new production lines and plants are added, as the sales force takes on more products (continued on page 46)



# HOW'S BUSINESS? today's

## An authoritative report by the staff of The Chamber of Commerce of the United States

### AGRICULTURE

Major changes in price support laws before the 1958 elections seem unlikely even though Secretary Benson's campaign for a thorough reappraisal of price support and production control programs has reopened the congressional doors to new proposals.

Supporters and opponents of the Administration agree that present laws are not achieving their intent. They disagree as to the extent to which federal legislation can be expected to establish prices or control production and marketing without further deterioration of normal markets and farm income.

Mr. Benson says that "farmers will not accept, legislators will not vote, and . . . administrators cannot impose the kind of controls which, at the price objectives specified by law, would be necessary to bring production into line with market outlets." He asks discretionary authority to set support prices according to supply and market conditions, then relax acreage restrictions as surpluses are reduced.

Opponents say that such authority to lower price supports would mean no program at all and would bankrupt farmers. They seem disposed to press for individual commodity programs, direct production payments and production controls on a pound-bushel basis.

### CONSTRUCTION

Housing activity appears to be near the end of the decline which began in 1955, according to the staff of the Joint Economic Committee. It adds that favorable long-term expectations do not preclude temporary letdowns in the demand for housing.

The Bureau of Labor Statistics reports the seasonally adjusted annual rate of private housing started

was 990,000 units in May, or 12 per cent above the eight-year low of 880,000 which was reached last March.

Meanwhile, Congress has turned thumbs down on proposals to raise GI interest rates, thereby continuing the noncompetitive market for VA guaranteed mortgages.

The proposed legislative remedies of lower down payments on FHA insured mortgages and additional funds to the Federal National Mortgage Association for secondary market operations will not solve the needs for additional new mortgage money.

The long-term solution lies in flexible interest rates for FHA and VA mortgages to make them competitive in the capital market.

### CREDIT & FINANCE

Private and public financial matters will increasingly become national issues during the remaining months of 1957. Interest rates, public and private, continue to inch upward as their role in the fight against inflation becomes more clearly recognized.

A full scale study of monetary and fiscal policies of the federal government got underway in the Finance Committee of the Senate last month.

A comprehensive bill which updates the nation's laws with regard to financial institutions is being cleared for House Banking and Currency Committee consideration. Several other financial proposals are slated for consideration.

General business conditions are expected to hold up well during the remainder of 1957.

Auto sales will continue about equal to last year. Wholesaler's sales will increase slightly with business inventories up somewhat over last year. Employment levels continue an upward trend along with

personal income levels and consumer installment buying.

### DISTRIBUTION

Continued high income and personal consumption expenditures are expected to keep retail sales at a high level in the foreseeable future.

Sales in first four months of 1957 exceed 1956 by 4.9 per cent. Adjusted for price changes, this increase amounts to just a bit more than one per cent. Last year's record year is being surpassed by a small margin.

Personal income continues high, being six per cent higher for the first quarter of 1957 than for the first quarter of 1956. After taxes and savings, personal consumption expenditures increased 5.1 per cent for the first quarter of 1957 over the like period in 1956.

Some roadside businesses—diners, motels, gas stations, tourist attractions—face an uncertain future because of the new federal highway system.

Proposed laws to control outdoor advertising on the new highways, if passed, may mean that a business more than a few hundred feet from the highway will have no practical means to attract transient customers.

### FOREIGN TRADE

The U. S. Department of State continues to emphasize the embargo by the United States on all trade with Peiping. Most countries are, however, a great deal more dependent on foreign trade than is the United States.

It was economic necessity, for instance, which motivated the British government to lift the embargo on nonstrategic goods to communist China—thus establishing one set of controls by the British for all of the communist bloc. Embargoes continue on some 250 items which would contribute directly to communist war potential.

While the hope for a vast untapped market of more than 200 million consumers in Red China and her satellites may be more an illusion than reality for some time, the British view is: "If we can develop China's trade links with the free world, without exceeding the limits



# outlook

which still apply to the Soviet bloc, we may decrease her dependence on the Soviet bloc."

## GOVERNMENT SPENDING

This will be a crucial month in the battle of the budget. Probably one or two of the big money bills will reach the Senate floor. Unless there is serious delay, look for the Defense battle to take the spotlight. Chances are fair that the Administration will succeed in restoring a small part of the \$1.9 billion cut by the House.

The Senate's record in upholding House reductions has been generally good so far. Some slippage in the Health, Education, and Welfare field is to be expected.

Foreign aid appropriations are likely to get consideration this month. The bill will have a rough time before the Senate, however, with opposition led by some traditional internationalists.

The public has been much confused by the impression that the President has reduced the scope of the program from \$4.4 to \$3.9 billion. Actually, the program's scope has not been changed. It's still \$4.4 billion. The only change is in the financing. Reappropriation of \$500 million savings which would normally lapse and stay in the Treasury has been asked. In addition, \$3.9 billion of new money is requested—to give the same \$4.4 billion program.

## LABOR

Only two labor measures may be pushed through into legislation at this session of Congress, although the going is still uncertain for both. One is the bill regulating employee health and welfare funds, which has been in the legislative mill for more than two years. The other is a bill to expand coverage of the federal minimum wage law. These two will be carried over into the next session if not resolved before Congress adjourns.

Items that may take the center stage at the next session include: how to get more democracy into labor union activities; how to make labor officials handle union funds more responsibly; whether compulsory membership in unions is pro-

hibited by federal law, instead of leaving this issue to the states.

Management spokesmen have been suggesting application of anti-trust laws to unions. Increased attention is focused also on secondary boycotts.

## NATURAL RESOURCES

The chances are slim that Congress this year will accept the Administration's long-awaited plan for the protection of a minimum mobilization base for the domestic strategic minerals industry. The plan is a great disappointment to the western mining industry—hard pressed by low-priced metal imports.

It represents a compromise between Interior's views and those of the State Department, and therefore pleases neither the domestic mining industry nor the free traders.

For lead and zinc, the program proposes a sliding scale import excise tax to go into effect when the price of lead falls below 16 cents and the price of zinc below 13.5 cents for a three month period. Two alternate methods are proposed: 1, to impose the sliding scale import excise taxes on top of present tariffs; and, 2, to substitute sliding scale import excise taxes (at a higher rate) for the present tariffs. Both would have the same net effect.

Other proposals are for the government to continue purchases at support prices for beryl, columbium-tantalum, and chromite; to assist other mineral producers through intensified research and technical assistance by the Bureau of Mines and Geological Survey, and to continue the Defense Minerals Exploration Administration program.

## TAXATION

Taxes and tax cutting are receiving less emphasis on Capitol Hill. Senator Byrd is strongly opposed

to any reduction until spending has been reduced. Most key senators agree. The recent report of the Joint Committee on Internal Revenue Taxation made clear the less favorable federal fiscal position caused by more rapid increase in expenditures than in revenue. Prospects for next year are no better. As a result, if there is a surplus this year it will go to debt reduction.

In the House, the Forand bill to make technical and administrative changes in excise taxes will be the outstanding achievement of the year.

The Mills proposals for corrective changes in the 1954 Code are running into opposition, particularly from the Treasury. Apparently the disagreements are basic and could be fatal to prospects for favorable action this year.

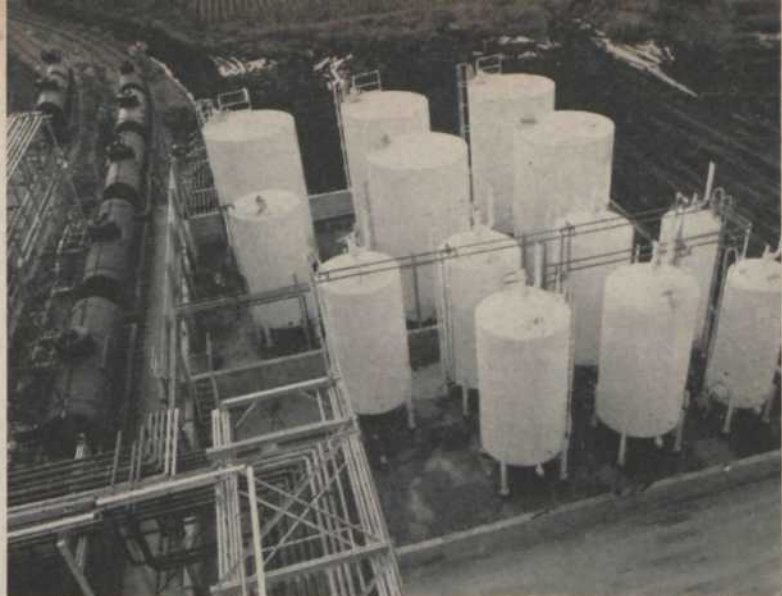
## TRANSPORTATION

An aggressive two-year attack on traffic accidents is being planned by the President's Committee for Traffic Safety. State and local officials will meet in Washington, D. C., on Dec. 9 and 10 to evaluate their traffic safety activities and develop which measure should have priority in their efforts to reduce deaths and injuries on the streets and highways.

The all time high of 40,000 motor-vehicle deaths in 1956 re-emphasizes the need to strengthen traffic safety programs.

T. S. Petersen, president, Standard Oil Company of California, who represents business on the committee, states that businessmen have a threefold interest in traffic safety: the tragic impact of accidents, particularly to employees; the economic losses; the challenge to business leadership.

This official evaluation of needs will be the basis for a series of regional citizen-support conferences in 1958.



AUTHENTICATED NEWS



## HOW TO ORGANIZE

*continued from page 43*

and spreads into new areas, the span of control of each functional manager tends to become wider and the number of levels increases. As a result, decision-making and communications slow down. Action becomes cumbersome and inflexible.

Johnson and Johnson, for example, operated profitably under a functional organization for 43 years and until it had attained a sales volume of some \$20 million annually. One day, however, Robert W. Johnson, president, called a meeting to discuss a problem involving one of the company's products. When he found that 17 men had to be present to consider all the ramifications of the problem, he recognized that the company had grown too large for

General Foods, for example, was founded in 1925 when the Postum Company acquired Jell-O. Until 1929, the company grew by expansion of its basic product lines. However, by 1930 it had acquired two new kinds of business in Birds Eye and Atlantic Gelatin, and still a third in Diamond Crystal Salt. To succeed in their own competitive markets, these new products needed sound, expeditious decision-making by executives who were thoroughly familiar with their unique problems. Divisionalization provided the answer to this.

Experience demonstrates that the firm that is planning to diversify, or has already diversified, must give early consideration to divisionalization and decentralization. Aeroquip Corporation, manufacturer of flexible hose lines, couplings, straps, clamps and fittings, divisionalized

changeover in 1947 when its sales were less than \$1 billion. Chrysler operated with a functional organization until the early 1950's, when it had attained an annual sales volume of around \$3 billion.

► **Cost.** The first cost for additional plant and facilities, sales force, and administrative expense is a factor in the decision to divisionalize. This is particularly important in heavy manufacturing, process industries and other enterprises in which heavy capital costs are involved.

► **The ability to separate production processes.** For clean-cut divisionalization, it should be possible to separate the production facilities so that each product or group of related products can have its own cost-separable facilities. In some cases it is practicable to use shared facilities and either to have one division act as landlord and sell to others at competitive prices, or to allocate costs on some agreeable basis.

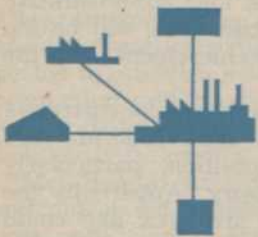
Production of heavily engineered, complex products requiring high capital investment and a concentration of top engineering and production skills will usually indicate product divisionalization. A simple product, such as soft drinks; one requiring commonly available, bulky or heavy raw materials, such as sand and gravel and cement; or a product depending upon freshness, such as dairy products and baked goods, will spell geographic divisionalization.

► **Market characteristics.** Each division should have its own separable markets, or it should be able to compete in similar markets by means of brand name differentiation. Market characteristics will help determine whether product or geographical divisionalization should be attempted.

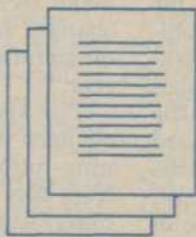
If the requirements of local markets differ markedly, geographical divisionalization provides complete focus or regional needs.

The Prudential Insurance Company of America operated for almost 75 years with a functional organization. However, it found that it could best cater to the needs of people in such widely separated areas as California, Texas, British Columbia, Ontario and Hawaii if divisions of the company were devoted completely to their needs. Divisionalizing and decentralizing to seven regions, Prudential found the results significant. In one year after the changeover, for example, the Western Home Office reported an increase of over 18 per cent in sales of ordinary life

## Checklist for change



Delegate,



build  
controls,



develop  
managers,



give it  
time

its original functional, centralized organization.

Carrier Corporation operated effectively under a functional organization for some 42 years. However, by the time it had reached an annual volume of \$164 million in 1953, with assets of \$20 million and 8,000 employees, it found that the volume and variety of problems funneling upon the managers of the functional organization severely taxed their strength and capacity.

► **Diversification.** The greater the variety of products and markets, the more complex and demanding the burden of decision-making and coordination placed upon functional management, the earlier divisionalization should be undertaken.

in 1955, when it had a sales volume of \$25 million, \$14 million in assets and 1,400 employees. Manning, Maxwell & Moore, Inc., manufacturers of gauges, valves, industrial instruments, aircraft engine controls, cranes and hoists, also made the change in 1955, with a sales volume of \$34 million, \$29 million in assets and 3,100 employees.

Compare to this the size attained under a functional organization by companies with little diversification. Boeing Airplane Company maintained a functional organization to \$853 million in sales, \$256 million in assets and 65,000 employees. In the automobile industry, General Motors divisionalized before 1920, at about the \$500 million sales level.

Ford Motor Company made the



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## HOW TO ORGANIZE

*continued*

insurance, while sales in this area for the rest of the life insurance industry showed no increase.

### How to change

Divisionalization involves dismembering the existing organization structure, far-reaching changes in social groupings and, frequently, physical separation of the component parts of the company. Need for the steps that must be taken should be anticipated before all this is undertaken. As a matter of fact, any growing company should consider these steps as preparation for a possible future need. They will also form a helpful checklist for companies that have already set up divisions but are not completely satisfied with the results.

**1. Provide for adequate decentralization.** Decentralization refers to the systematic and consistent delegation of authority to the firm's operating levels. If divisionalization is to be most effective, the

own raw materials. He staffs his department and is responsible for developing his own people. He has practically complete command of most items which enter into his costs.

In General Foods, each of the 12 divisions is treated as a profit center in itself. Each is given the facilities it needs for production, sales, procurement and other activities it requires to operate as a relatively autonomous business.

Nationwide Insurance has 15 geographic divisions. Each of these has the authority it needs to operate much as a small insurance business in itself. Each has full authority to issue insurance, collect premiums, pay claims, hire and fire and service its policies.

Profit center decentralization must be balanced by appropriate centralization for adequate guidance and control. No matter to what extent division management is permitted autonomy in operating decisions, the central company management must retain responsibility and authority for the establishment of over-all objectives, policies and other plans. It must review and approve the general programs and

porting of work in progress, evaluation of performance against standards, and the institution of corrective action where necessary.

**3. Develop managers.** Because divisionalization and decentralization create more units which must be managed, more managers must be available who can not only operate, but are also capable of planning, organizing, coordinating and controlling the work they supervise. Training of managers to manage requires careful appraisal in terms of management performance standards, counseling by the immediate superior, coaching to overcome identified weaknesses and to build new areas of strength.

Since development of managers is a long term undertaking, it should either be initiated several years before the organization change, or the company should face up to the need of hiring qualified managers from outside.

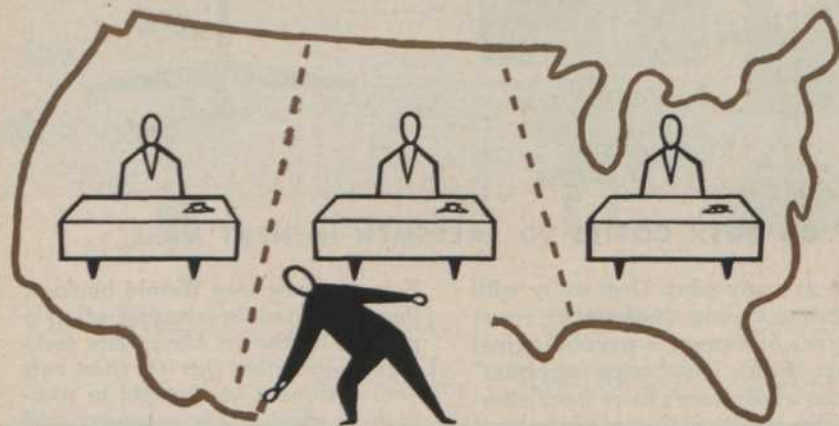
**4. Give it time.** Time is essential to successful reorganization. Most firms will require at least from three to five years to accomplish the organization changes involved in divisionalization and overcoming the resistance of the people affected. Where preliminary planning is inadequate, or where the company is very large or has complicated production or marketing problems, the transition from a functional to a divisionalized structure, with appropriate phase steps, may require anywhere from eight to 25 years of constant planning and effort.

The establishment of a sound organization is a major undertaking. However, effort devoted to organization is a permanent investment. Properly carried out, it can add to the company's current productivity and help it to maintain stature and profitability over the long term.

—LOUIS A. ALLEN

*The conclusions reached in this article by Mr. Allen are based on a three-year study of management and organization which he recently directed and conducted for the National Industrial Conference Board. Mr. Allen now specializes in organization and management problems with the management consulting firm of Booz, Allen and Hamilton, Chicago, Ill.*

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Before you finally draw your organization lines be sure that you have qualified managers developed or brought in

manager of each product or geographic division should be given enough authority so he can be held accountable for his profit and loss.

The Du Pont Company decentralized its 11 product divisions to the extent that each functions much like an independent company. They buy and sell among themselves, generally on the same terms quoted to outside concerns. Their products may even compete with each other in the same markets.

Each division general manager is fully accountable for the investment in plants, laboratories, processes and facilities of his division. He has authority to develop his own manufacturing processes and to buy his

budgets formulated by the operating units. Responsibility for development of the over-all organization structure must be centralized, as must over-all coordination and control of the activities of the operating divisions.

**2. Establish proper controls.** Independent authority can be delegated to the operating divisions only to the extent that effective controls are available to appraise and evaluate accomplishment of the divisions against approved objectives and plans. This requires the development of meaningful and accepted performance standards for each unit, the measuring, recording and re-





10,276 Anaconda Tubes,  $\frac{7}{8}$ " diameter and 30 feet long, were inserted in  $1\frac{1}{2}$ "-thick, 6-ton Anaconda Muntz Metal plates of condenser at Shippingport.

## First big atomic power plant uses 60 miles of Anaconda Tube

**HOW TO "BURN" URANIUM.** America's first big atomic power plant at Shippingport, Pa., will give vital information on how best to use uranium for fuel on a large scale. Operating experience will measure the performance of



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the nuclear power source and help guide the design of new and bigger plants.

The turbine-generator in this plant requires nearly one million pounds of steam every hour to produce a maximum of 100,000 kilowatts of electric power. To re-use this tremendous amount of water and to get the greatest possible efficiency from the system, the huge steam condenser shown above is used.

In it, 60 miles of Anaconda Arsenical Admiralty Tubes provide 70,000 square feet of condensing surface. Cooling water from the nearby Ohio River is pumped through the tubes. The turbine's exhaust steam condenses on the surface of the tubes, and the resulting water is pumped to the nuclear boilers for re-use.

**THE PROBLEM OF CORROSION.** Arsenical Admiralty Alloy is one of the important developments of Anaconda's

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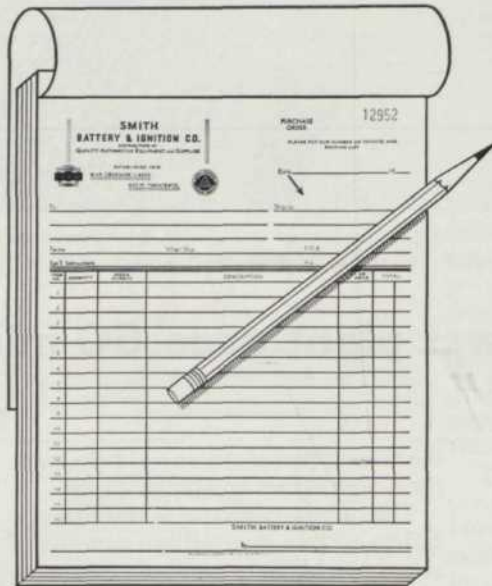
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## BUDGET CUTS

continued from page 27

1957 spending is now estimated at anywhere from \$4 to \$5 billion above the original budget figure. Supplemental appropriations later and increased use of carryover funds accounted for these results.

Foreign aid provides a good example of how slight is the immediate impact of appropriations on actual spending. Last year the President asked nearly \$4.9 billion of new obligational authority for the program—\$3 billion of military, the rest economic and technical. Congress cut this almost \$1.1 billion—to \$3.8 billion, including \$2 billion military, and \$1.8 billion economic and technical.

The President originally estimated 1957 fiscal year spending of \$4.3 billion—\$2.5 billion of military and \$1.8 billion of other aid. After Congress cut the new spending authority, he estimated spending would be down not quite \$200 million. In fact, in his revised estimates, he put military aid spending \$100 million higher than originally budgeted. Increased use of carryover funds more than offset the cut.

In the coming fiscal year, only \$1.1 billion of the \$4.35 billion of projected foreign aid spending will come from the new foreign aid request; the rest will come from carryover funds. If the cuts in the new authority are too deep, presumably they could again be offset at least in part by heavier-than-planned use of carryover funds.

Some of the cuts Congress is making in the new appropriations will, it is true, force immediate reductions in the 1958 spending picture. This is most likely to happen when the new spending authority is sought for salaries, payments to the public, travel, office rent, or other currently consumed items.

For example, the House cut about \$14.5 million off the General Services Administration's request of \$142 million for regular operations. The agency planned to spend almost all the money it sought in the coming year, so the House cut would mean an almost dollar-for-dollar reduction in GSA spending this year. The House eliminated \$40 million sought by the Interior Department for buying minerals from U. S. mining firms; Interior planned to spend \$31.5 million of that sum in the year ahead. The House cut \$17 million from the \$25 million the Federal Civil Defense Administration wanted for planning, education, technical training, and similar programs. FCDA had planned to spend

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## BUDGET CUTS

*continued*

currently at least \$20 million of the \$25 million.

But this type of cut tends to involve comparatively small amounts. The bigger and more publicized cuts Congress is making tend to be in procurement and similar long-term programs. Here the effect of the appropriations cuts on current year spending is slight.

The House cut \$516 million of the \$583 million sought for Army procurement. Not a dollar of this was to be spent in the coming year; the entire \$1.4 billion projected Army spending on procurement will come from carryover funds. The same is true of a House cut of \$80 million in Marine procurement funds.

The House cut \$453 million from the \$6.2 billion sought by the Air Force to buy planes and missiles. Only \$714 million of the entire \$6.2 billion was to have been spent in the coming year, so the appropriations cut will obviously have minimum impact on spending.

The House cut \$120 million from the more than \$1.9 billion sought by the Navy for plane procurement; only \$100 million of the entire amount was to be spent this coming year, with carryover funds financing the rest of the projected \$1.86 billion of actual spending.

The examples are by no means confined to military procurement. Congress cut \$91.5 million of the \$94.5 million sought by the Maritime Administration for ship construction subsidies. Yet the agency planned to spend less than \$4 million of the entire \$94.5 million in this coming year; the rest of the \$64 million of programmed spending will be supplied by carryover funds. Congress eliminated \$71.7 million of the \$75 million FCDA sought to buy emergency supplies and equipment; only \$7 million was down for spending in fiscal 1958.

One lawmaker estimated privately that the \$4 billion of appropriations cuts made by the House through the end of May wouldn't reduce 1958 spending \$500 million below what it would have been if the House hadn't cut a dime, and that rising costs and other factors would more than offset the reduction.

For any long-term budget control, it's important that Congress at some point start cutting appropriations deeply, to hold down spending in later years. Assuming that Congress doesn't make up for its present economy efforts by voting twice as large appropriations next

year, the cuts it is making now should help curb federal spending in fiscal 1959, 1960 and later, even though the effect in fiscal 1958 will be slight.

On the other hand, some cuts never bring down spending at all, and many of the cuts Congress is making now are unquestionably of that sort.

One cut of this type occurs when Congress denies some new appropriations request, but at the same time tells an agency to make up for this cut by spending money that it has on hand but hasn't the right to spend under existing law.

Of the House cuts in Army and Navy appropriations this year, \$590 million are of this type. Certain military stock funds—funds used to buy clothing and other items—have piled up too much cash. The Army and Navy can't spend this money for other programs, and in the past,



Congress has periodically ordered some of this excess paid back into the Treasury.

This time, though, the House said the Army and Navy should use \$590 million of the excess stock fund cash for pay and allowances in place of new appropriations. In other words, the House claimed it was saving the taxpayers \$590 million by denying the Army and Navy this amount of new spending authority, but then turning over to the services \$590 million that otherwise would have come back into the Treasury eventually.

Similarly, Congress cut \$65 million from the appropriations requested by the Maritime Administration for ship operating subsidies. Then Congress said to go ahead and use \$65 million that the War Shipping Administration has on hand. This agency is now being liquidated, and its \$65 million would otherwise have been paid back to the Treasury.

The House cut \$10 million from next year's appropriation request for the Army Reserve program and instead gave the program the right to use \$10 million left over from this year's appropriation. If it hadn't given the program this right, the \$10 million would have reverted to the Treasury on June 30.

Not one of these cuts will reduce federal spending this coming year.

The agencies will have just as much authority to spend money as if Congress had voted the full appropriations request. But Congress in these instances can claim \$665 million of appropriations cuts.

Another type of questionable cut is in money asked to cover programs where the government has a firm, fixed obligation under the law. The laws providing for veterans pensions and compensation, grants to states for public assistance, grants for unemployment compensation, and other programs spell out clearly that the federal government must provide payments to cover all qualifying applicants.

The Administration estimates in its budget how much it will need for these programs. When Congress cuts the requested appropriations, it is saying, "we can guess better than the Administration." If it guesses wrong, the money must be voted later. If it guesses correctly, it really hasn't saved the government any money because the money wouldn't have been spent even if it had been voted. It could only have been paid to qualifying applicants, and not used for anything else.

This year, Congress has claimed more than \$300 million of savings from this type of cut. Recent experience shows how illusory these savings may be. Practically every time Congress has tried to "save" in this way recently, it has had to vote the money later.

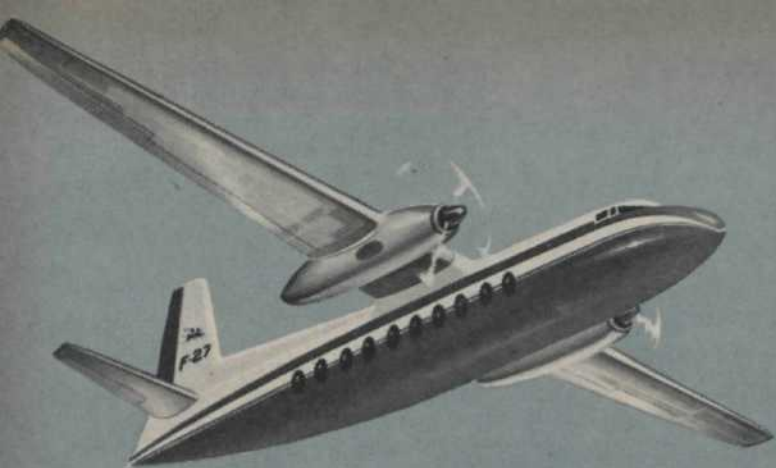
Only once in the past 10 years has the money actually needed to make public assistance grants to the states failed to be more than the original appropriations request. In fiscal 1953, \$1.14 billion was originally sought for this program, Congress cut \$140 million, and later had to vote an extra \$340 million. In fiscal 1954, Congress voted the entire \$1.34 billion sought, and had to vote another \$58 million later. In fiscal 1955, it voted the entire \$1.2 billion requested, and had to provide \$238 million more later.

In fiscal 1956, it voted the entire \$1.4 billion requested, and had to provide a \$57 million supplemental. In fiscal 1957, it voted \$1.3 billion, \$15 million less than requested, and this spring had to provide another \$275 million.

In the face of this record, Congress this year cut the Administration's request for the 1958 program \$79.4 million—and claimed a saving of that amount.

Last year the Veterans Administration asked for \$775 million for readjustment benefits to veterans. It got that much and still needed a \$65 million supplemental appropriation this spring. But the House





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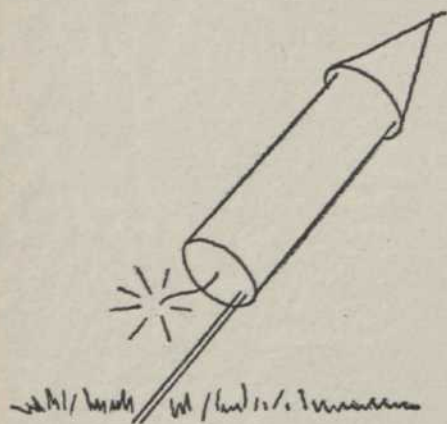


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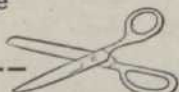


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## BUDGET CUTS

*continued*

cut the request for the coming year \$41.5 million and claimed that as a saving and the Senate cut it \$45.4 million.

The House Appropriations Committee in effect admits the nature of these cuts.

"The basic legislation guarantees payments to all eligible," it says in one report, "and if the amount in the bill is not sufficient, additional funds will have to be made available in a supplemental appropriation."

In another report, the committee says it is cutting Administration requests for this type of program by five per cent because "the estimate of what may be required can easily vary by such amount." Comments a Budget Bureau official: "I wonder how come they never use that logic to vote us five per cent more than we request."

Still another misleading cut is a more than \$126 million House reduction in Army and Air Force operating funds, made in anticipation that the West German government will again agree to make available to U. S. troops stationed in Germany that amount of goods and services. Negotiations had not been completed on this agreement, and the Administration request for this amount of appropriations in effect said, "Germany may not agree to do this again. Give us the money, and if Germany agrees, we'll use her money and not this." The House action in effect says, "Germany will certainly agree, so we'll cut this money. Of course, if Germany does not agree, we'll vote you this money later."

A final category of questionable economies involves a reduction by Congress with the knowledge that it may—or almost certainly will—have to restore the money, and perhaps a little more, later.

An example is the Post Office Department's appropriations. Congress cut the appropriations request for the coming year by \$58 million, in the face of warnings by Postmaster General Summerfield that rising mail volume would make even his original request inadequate. Now the Administration has informed Congress the department needs not only the \$58 million "saved" earlier but rather \$149.5 million, if postal service is not to be cut July 1.

Congress makes many of the cuts with a tacit agreement with the agencies involved to "accept this now without a squawk, and if you run short, come back in January and we'll give you a little more." Every

year Congress approves two or three supplemental appropriations bills carrying hundreds of millions or even billions of dollars for agencies it cut too deeply in the first place, or which need more money because of rising prices, pay raises, or new duties voted by Congress after the original appropriations bills were passed. In fiscal 1956, nearly \$1 billion of supplemental appropriations were voted. The total will almost certainly be that or more for fiscal 1957.

The lack of correlation between appropriations and spending, and the questionable value of some appropriations cuts raise major doubts as to how much the current congressional economy drive will mean in actual spending reductions in the 1958 fiscal year.

These doubts are underlined by a few other developments.

1. Congress still hasn't completed action on all the bills. Some lawmakers feel economy sentiment has started to wane. The Administration is fighting to have the Senate overturn many of the House cuts.

2. Costs are rising on programs already authorized. This will mean heavier spending—either from larger withdrawals of the unspent carryovers or from requests for supplemental appropriations. Defense spending in the 1957 fiscal year, originally estimated at \$36 billion, actually was around \$38 billion. This is due almost entirely to rising prices and not to larger forces or heavier procurement. The trend will continue in the coming year, applying to spending for public works projects and other programs as well as to military spending.

3. Congress is voting many new spending programs that go beyond the budget. A pending veterans compensation bill would cost \$170 million annually, compared to a budget figure of \$100 million. Pending housing proposals would boost potential government outlays in this field far beyond the Administration figure. Postal workers and other federal employees are picking up support for increases in pay and for fringe benefits. Congress seems likely to pass a bill to authorize some \$1.5 billion or more of new river and harbor and other public works projects, a total far above the Administration figure. A deferred grazing law passed early in the session, under which the government will pay ranchers in the drought-stricken Southwest to keep cattle off range land to prevent overgrazing, will add \$15 to \$20 million to the January budget totals.

—CHARLES B. SEIB





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# LISTENING IS A 10-PART SKILL

Nothing equals an executive's willingness to listen, and learning how is an inside job

WHITE COLLAR workers, on the average, devote at least 40 per cent of their work day to listening. Apparently 40 per cent of their salary is paid to them for listening. Yet tests of listening comprehension have shown that, without training, these employees listen at only 25 per cent efficiency.

This low level of performance becomes increasingly intolerable as evidence accumulates that it can be significantly raised. The component skills of listening are known. They boil down to this:

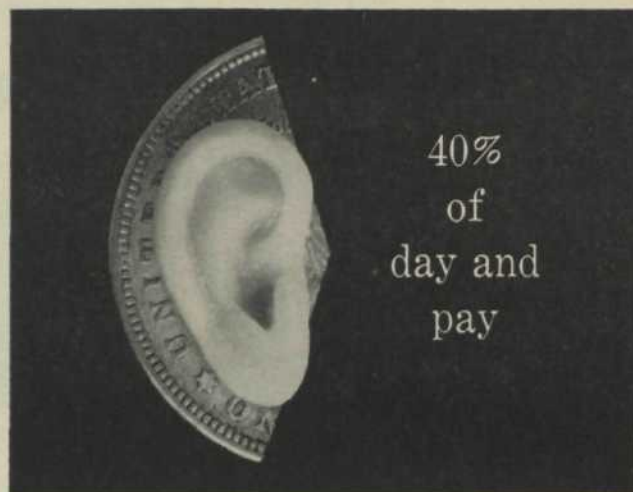
Learning through listening is primarily an inside job—inside action on the part of the listener. What he needs to do is to replace some common present attitudes with others.

Recognizing the dollar values in effective listening, many companies have added courses in this skill to their regular training programs. Some of the pioneers in this effort have been American Telephone & Telegraph Co., General Motors Corporation, Ford Motor Company, The Dow Chemical Company, Western Electric Co., Inc., Methods Engineering Council of Pittsburgh, Minnesota Mining & Manufacturing Co., Thompson Products, Inc., of Cleveland, and Rogers Corp. of Connecticut.

Warren Ganong of the Methods Engineering Council has compared trainees given a preliminary discussion of efficient listening with those not provided such discussion. On tests at the end of the courses the former achieved marks 12 to 15 per cent higher than did the latter.

A. A. Tribbey, general personnel supervisor of the Wisconsin Telephone Company, in commenting on the results of a short conference course in which effective listening was stressed, declared: "It never fails to amaze us when we see the skill that is acquired in only three days."

The conviction seems to be growing that upper-level managers also need listening skill. As Dr. Earl Planty, executive counselor for the pharmaceutical firm of Johnson & Johnson puts it: "By far the most effective method by which executives can tap ideas of subordinates is sympathetic listening in the many day-to-day informal contacts within and outside the work place. There is no system that will do the job in an



easier manner. . . . Nothing can equal an executive's willingness to hear."

A study of the 100 best listeners and the 100 worst listeners in the freshman class on the University of Minnesota campus has disclosed 10 guides to improved listening. Business people interested in improving their own performance can use them to analyze their personal strengths and weaknesses. The 10 guides to good listening are:

## 1. Find area of interest

All studies point to the advantage in being interested in the topic under discussion. Bad listeners usually declare the subject dry after the first few sentences. Once this decision is made, it serves to rationalize any and all inattention.

Good listeners follow different tactics. True, their first thought may be that the subject sounds dry. But a second one immediately follows, based on the realization that to get up and leave might prove a bit awkward.

The final reflection is that, being trapped anyhow, perhaps it might be well to learn if anything is being said that can be put to use.

The key to the whole matter of interest in a topic is the word *use*. Whenever we wish to listen efficiently, we ought to say to ourselves: "What's he saying that I can use? What worth-while ideas has he? Is he reporting any workable procedures? Anything that I can cash in, or with which I can make myself happier?" Such questions lead us to screen what we are hearing in a continual effort to sort out the elements of personal value. G. K. Chesterton spoke wisely indeed when he said, "There is no such thing as an uninteresting subject; there are only uninterested people."



## 2. Judge content, not delivery

Many listeners alibi inattention to a speaker by thinking to themselves: "Who could listen to such a character? What an awful voice! Will he ever stop reading from his notes?"

The good listener reacts differently. He may well look at the speaker and think, "This man is inept. Seems like almost anyone ought to be able to talk better than that." But from this initial similarity he moves on to a different conclusion, thinking "But wait a minute. . . . I'm not interested in his personality or delivery. I want to find out what he knows. Does this man know some things that I need to know?"

Essentially we "listen with our own experience." Is the conveyor to be held responsible because we are poorly equipped to decode his message? We cannot understand everything we hear, but one sure way to raise the level of our understanding is to assume the responsibility which is inherently ours.

## 3. Hold your fire

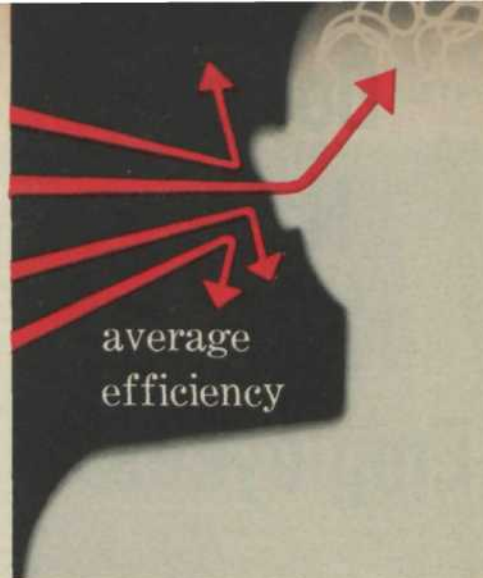
Overstimulation is almost as bad as understimulation, and the two together constitute the twin evils of inefficient listening. The overstimulated listener gets too excited, or excited too soon, by the speaker. Some of us are greatly addicted to this weakness. For us, a speaker can seldom talk for more than a few minutes without touching upon a pet bias or conviction. Occasionally we are roused in support of the speaker's point; usually it is the reverse. In either case overstimulation reflects the desire of the listener to enter, somehow, immediately into the argument.

The aroused person usually becomes preoccupied by trying to do three things simultaneously: calculate what hurt is being done to his own pet ideas; plot an embarrassing question to ask the speaker; enjoy mentally all the discomfiture visualized for the speaker once the devastating reply to him is launched. With these things going on subsequent passages go unheard.

We must learn not to get too excited about a speaker's point until we are certain we thoroughly understand it. The secret is contained in the principle that we must always withhold evaluation until our comprehension is complete.

## 4. Listen for ideas

Good listeners focus on central ideas; they tend to recognize the characteristic language in which central



ideas are usually stated, and they are able to discriminate between fact and principle, idea and example, evidence and argument. Poor listeners are inclined to listen for the facts in every presentation.

To understand the fault, let us assume that a man is giving us instructions made up of facts A to Z. The man begins to talk. We hear fact A and think: "We've got to remember it!" So we begin a memory exercise by repeating "Fact A, fact A, fact A. . . ."

Meanwhile, the fellow is telling us fact B. Now we have two facts to memorize. We're so busy doing it that we miss fact C completely. And so it goes up to fact Z. We catch a few facts, garble several others and completely miss the rest.

It is a significant fact that only about 25 per cent of persons listening to a formal talk are able to grasp the speaker's central idea. To develop this skill requires an ability to recognize conventional organizational patterns, transitional language, and the speaker's use of recapitulation. Fortunately, all of these items can be readily mastered with a bit of effort.

## 5. Be flexible

Our research has shown that our 100 worst listeners thought that note-taking and outlining were synonyms. They believed there was but one way to take notes—by making an outline.

Actually, no damage would be done if all talks followed some definite plan of organization. Unfortunately, less than half of even formal speeches are carefully organized. There are few things more frustrating than to try to outline an unoutlineable speech.

Note-taking may help or may become a distraction. Some persons try to take down everything in shorthand; the vast majority of us are far too voluminous even in longhand. While studies are not too clear on the point, there is some evidence to indicate that the volume of notes taken and their value to the taker are inversely related. In any case, the real issue is one of interpretation. Few of us have memories good enough to remember even the salient points we hear. If we can obtain brief, meaningful records of them for later review, we definitely improve our ability to learn and to remember.

The 100 best listeners had apparently learned early in life that if they wanted to be efficient note-takers they had to have more than one system of taking



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## LISTENING

*continued*

notes. They equipped themselves with four or five systems, and learned to adjust their system to the organizational pattern, or the absence of one, in each talk they heard. If we want to be good listeners, we must be flexible and adaptable note-takers.

### 6. Work at listening

One of the most striking characteristics of poor listeners is their disinclination to spend any energy in a listening situation. College students, by their own testimony, frequently enter classes all worn out physically; assume postures which only seem to give attention to the speaker; and then proceed to catch up on needed rest or to reflect upon purely personal matters. This faking of attention is one of the worst habits afflicting us as a people.

Listening is hard work. It is characterized by faster heart action, quicker circulation of the blood, a small rise in bodily temperature. The overrelaxed listener is merely appearing to tune in, and then feeling conscience-free to pursue any of a thousand mental tangents.

For selfish reasons alone one of the best investments we can make is to give each speaker our conscious attention. We ought to establish eye contact and maintain it; to indicate by posture and facial expression that the occasion and the speaker's efforts are a matter of real concern to us. When we do these things we help the speaker to express himself more clearly, and we in turn profit by better understanding of the improved communication we have helped him to achieve. None of this necessarily implies acceptance of his point of view or favorable action upon his appeals. It is, rather, an expression of interest.

### 7. Resist distractions

The good listeners tend to adjust

quickly to any kind of abnormal situation; poor listeners tend to tolerate bad conditions and, in some instances, even to create distractions themselves.

We live in a noisy age. We are distracted not only by what we hear, but by what we see. Poor listeners tend to be readily influenced by all manner of distractions, even in an intimate face-to-face situation.

A good listener instinctively fights distraction. Sometimes the fight is easily won—by closing a door, shutting off the radio, moving closer to the person talking, or asking him to speak louder. If the distractions cannot be met that easily, then it becomes a matter of concentration.

### 8. Exercise your mind

Poor listeners are inexperienced in hearing difficult, expository material. Good listeners apparently develop an appetite for hearing a variety of presentations difficult enough to challenge their mental capacities.

Perhaps the one word that best describes the bad listener is "inexperienced." Although he spends 40 per cent of his communication day listening to something, he is inexperienced in hearing anything tough, technical, or expository. He has for years painstakingly sought light, recreational material. The problem he creates is deeply significant, because such a person is a poor producer in factory, office, or classroom.

Inexperience is not easily or quickly overcome. However, knowledge of our own weakness may lead us to repair it. We need never become too old to meet new challenges.

### 9. Keep your mind open

Parallel to the blind spots which afflict human beings are certain psychological deaf spots which impair our ability to perceive and understand. These deaf spots are the dwelling place of our most cherished notions, convictions, and complexes. Often, when a speaker invades one of these areas with a word or phrase, we turn our mind to retraveling fa-

## LISTENING TEST

Within a few years one of the first concerns of the employer of a white-collar worker may be to verify the latter's listening index. This index may be derived from standard tests of listening comprehension already on the market. One such test is already in use in industry as well as in colleges and universities. It is the Brown-Carlsen Listening Comprehension Test published by the World Book Company.



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## LISTENING

*continued*

miliar mental pathways crisscrossing our invaded area of sensitivity.

It is hard to believe in moments of cold detachment that just a word or phrase can cause such emotional eruption. Yet with poor listeners it is frequently the case; and even with very good listeners it is occasionally the case. When such emotional deafness transpires, communicative efficiency drops rapidly to zero.

Among the words known thus to serve as red flags to some listeners are: mother-in-law, landlord, red-neck, sharecropper, sissy, pervert, automation, clerk, income tax, communist, Red, dumb farmer, pink, "Greetings," antivivisectionist, evolution, square, punk, welsher.

Effective listeners try to identify and to rationalize the words or phrases most upsetting emotionally.



Ralph G. Nichols, who wrote this article for *Nation's Business*, is co-author with Leonard Stevens of "Are You Listening?" a book to be published this fall

Often the emotional impact of such words can be decreased through a free and open discussion of them with friends or associates.

### 10. Capitalize on thought speed

Most persons talk at a speed of about 125 words a minute. There is good evidence that if thought were measured in words per minute, most of us could think easily at about four times that rate. It is difficult—almost painful—to try to slow down our thinking speed. Thus we normally have about 400 words of thinking time to spare during every minute a person talks to us.

What do we do with our excess thinking time while someone is speaking? If we are poor listeners, we soon become impatient with the slow progress the speaker seems to

be making. So our thoughts turn to something else for a moment, then dart back to the speaker. These brief side excursions of thought continue until our mind tarries too long on some enticing but irrelevant subject. Then, when our thoughts return to the person talking, we find he's far ahead of us. Now it's harder to follow him and increasingly easy to take off on side excursions. Finally we give up; the person is still talking, but our mind is in another world.

The good listener uses his thought speed to advantage; he constantly applies his spare thinking time to what is being said. It is not difficult once one has a definite pattern of thought to follow. To develop such a pattern we should:

► Try to anticipate what a person is going to talk about. On the basis of what he's already said, ask yourself: "What's he trying to get at? What point is he going to make?"

► Mentally summarize what the person has been saying. What point has he made already, if any?

► Weigh the speaker's evidence by mentally questioning it. As he presents facts, illustrative stories and statistics, continually ask yourself: "Are they accurate? Do they come from an unprejudiced source? Am I getting the full picture, or is he telling me only what will prove his point?"

► Listen between the lines. The speaker doesn't always put everything that's important into words. The changing tones and volume of his voice may have a meaning. So may his facial expressions, the gestures he makes with his hands, the movement of his body.

Not capitalizing on thought speed is our greatest single handicap. The differential between thought speed and speech speed breeds false feelings of security and mental tangents. Yet, through listening training, this same differential can be readily converted into our greatest asset.—RALPH G. NICHOLS

Head, Department of Rhetoric  
University of Minnesota

REPRINTS of "Listening is a 10-part Skill" may be obtained for 10 cents a copy or \$6.75 per 100 postpaid, from *Nation's Business*, 1615 H Street N.W., Washington 6, D. C. Please enclose remittance with order.





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## KEY TO U.S. FUTURE

*continued from page 33*

itself is so complex that I would find it hard to feel that we were over-stressing anything. There is just not time enough to do all that we should be doing.

***In the future will business managers participate more broadly in community affairs?***

That's right. As a matter of fact, such participation provides another evidence of business leaders' awareness of this broadened interest. A conspicuous phase is seen in business support for higher education. The work of men like Alfred P. Sloan, Jr., Frank Abrams, Irving Olds, Henning W. Prentis, Jr., has within the past five years had a pronounced impact on the acceptance of the appropriateness of business support for higher education and moreover, support it without making the influence of business felt on the nature of the educational process.

***Do you feel that an increase in business support for higher education is needed to ward off pressures for governmental participation?***

It would be hard to see how the privately supported institutions of higher learning could avoid seeking state aid in the absence of business support.

***Will the broadening requirements of a managerial position necessitate any big changes in organization or in corporate set-up?***

There already has been such a readjustment. Today I think you would find in most corporations the personnel departments and the public relations departments exceeding in numbers the legal department, for instance.

***Will the corporation perhaps be the paramount element in our society in the future?***

I think it probably is paramount to most other institutions today in terms of its influence on the community. Whether its importance will grow will depend largely upon how it is managed.

We have today a group that has come into being almost without having been aware of its own existence, namely, the professional management group whose members are fundamentally motivated by the influences that bear on stewardship. The professional manager's greatest achievement must be the ultimate passing on of his responsibilities to his successors in a condition that is

healthy in every respect—growth, morale, financial strength, significance to the community, public approval. These are the things that he is trying to build. These are socially desirable things.

***What other opportunities do you foresee for the corporation?***

If the manager of the corporation feels it has an interest that in the long run will correspond with the interest of the society which gives it sanction, and this is an entirely defensible position, the attempt to contribute to the social purpose, whether it is in the field of education, whether it is in the field of music and art, whether it is in the field of just generally making better the community in which it lives, makes little difference. It will all blend into a harmonious relationship of the corporation to its environment.

***Will this broadened role lay business open to charges of paternalistic operation?***

Definitely. In fact, it is already being placed in that position. Many feel that this kind of a view of the role of the corporation represents little more than a yearning for a return to static feudalism.

The difference basically is that the modern corporation is a voluntary organization. Those associated with it don't have to be members of the corporate family. They can turn elsewhere. The corporation cannot impose its will by decree. It depends for its effectiveness upon consent of great numbers of people. In this sense, the corporation is a highly democratic instrument.

***You would characterize our economic system as one in which freedom is a keynote?***

If freedom ever ceases to be a dominant characteristic, we will have really changed the nature of our society. This is one of the problems that I think intelligent corporate officers must be constantly aware of. We must keep the elements of individuality and creativity as strong as is compatible with achieving the purposes of the organization.

Now, if we ever permit a high degree of conformity and the other characteristics of bureaucracy to begin to dominate our corporations, they will again change their nature and will lose much of the opportunity they have now to achieve great good for increasing numbers. I am not sure that we are sufficiently aware of the dangers.

***How can corporate leaders avoid this kind of trap?***

They could study government which seems to exhibit many bureaucratic traits and try to avoid doing the same kinds of things. There is no place for the autocrat in the modern corporate setting.

***It will require democratic leadership up and down the line?***

Exactly.

***A communist leader has predicted that this country will become socialist in a matter of two generations. What comment do you have on that?***

I think Mr. Khrushchev was talking about something that has long since become passé. We have already evolved a new pattern of social organization that is neither pure socialism nor pure capitalism. We have achieved many of the things sought by the highly idealistic Christian Socialists who preceded Karl Marx by several generations. We have distributed the benefits of productive effort widely. We have distributed the ownership of the means of production and distribution widely and it is being more widely distributed every year.

***Through stock?***

Through stock ownership. Or indirectly through insurance policies or savings bank accounts and other things.

We have done this without turning over the control of the means of production and distribution to the political state. The modern corporation has been the instrument through which it has been done.

Therefore, we have achieved a society of great abundance, yet maintained the characteristics of a democracy in both our political and our economic life. This is the great contribution of the modern corporation that is so seldom recognized.

***What can a corporation of the future do in the struggle between the collectivist idea and the libertarian idea?***

I am not sure that the corporation as an institution should attempt to get into the verbal side of the ideological struggle. I think it can, however, by doing its own work in ways that will be recognized as harmonious with broader social purposes, do much to diminish the intensity of the verbal battle of ideologies.

***You feel that by carrying out our own brand of capitalism most effectively we will set an example for the rest of the world?***

Exactly. Companies that operate here can live within these terms. Those that can appropriately go



abroad and wish to do so can find opportunities to be even more effective as examples of broadened business life in their foreign operations; subject of course to local customs.

**Should businessmen take a greater part in political affairs?**

It depends on what you mean. We have described the role of the professional manager to include an awareness—an encompassing awareness of the interests of labor, of the consumer, of the supplier, of the community at large, as well as of the stockholder.

Now, if this is true, the business manager cannot indulge himself appropriately in the posture of a strict partisan representing the political interests of any one of these claimants for his attention.

When we speak of politics in the broader sense of the term, however, of the art of working with people and obtaining the consent of people to get approved purposes achieved and accomplished, then, I would insist that the business manager must be increasingly a politician. The modern corporation is, within these trends that we are describing, becoming a quasi-political organization itself.

**Is business power drifting into too few hands?**

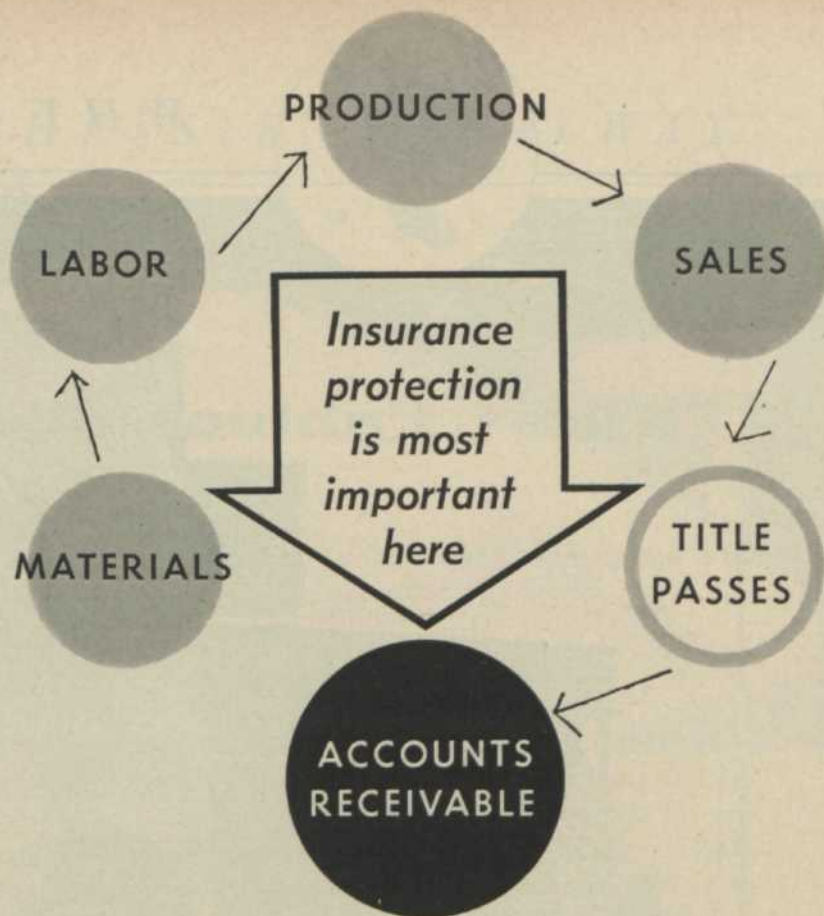
I am unaware of any data that would show convincingly that there has been an intensification of concentration. The associations that I have had the privilege to share with men who have high position in the corporate world give me no sense of the possession by them of arbitrary or capricious power.

**You feel that even within industries where only a few companies dominate, there is still complete competition?**

Completely competitive is a catch phrase. Workably competitive is a better phrase. I am not sure that we should want to be completely competitive because it would create a degree of chaos in markets that would frustrate all of these efforts at continuity and stability of flow. It would be devastating to stable employment.

The better concept from the standpoint of the well-being of the community is one that will assure that, over time, all segments of the community benefit from improved efficiencies and that real incomes are rising. Real incomes in contrast to money incomes. This is exactly what has been happening in the Twentieth Century, except for pensions and teachers!

END



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When a shipment is made—title passes—and you create an account receivable. You are more certain of the end result—PROFIT—when you protect accounts receivable with Credit Insurance. That's why an increasing number of executives have decided that NO cycle of protection is complete unless capital invested in accounts receivable is insured by ACI. To learn more about Credit Insurance, call our office in your city, or write AMERICAN CREDIT INDEMNITY COMPANY of New York, Dept. 41, 300 St. Paul Place, Baltimore 2, Maryland.

**Liquidity of capital is the  
prime responsibility of management.**

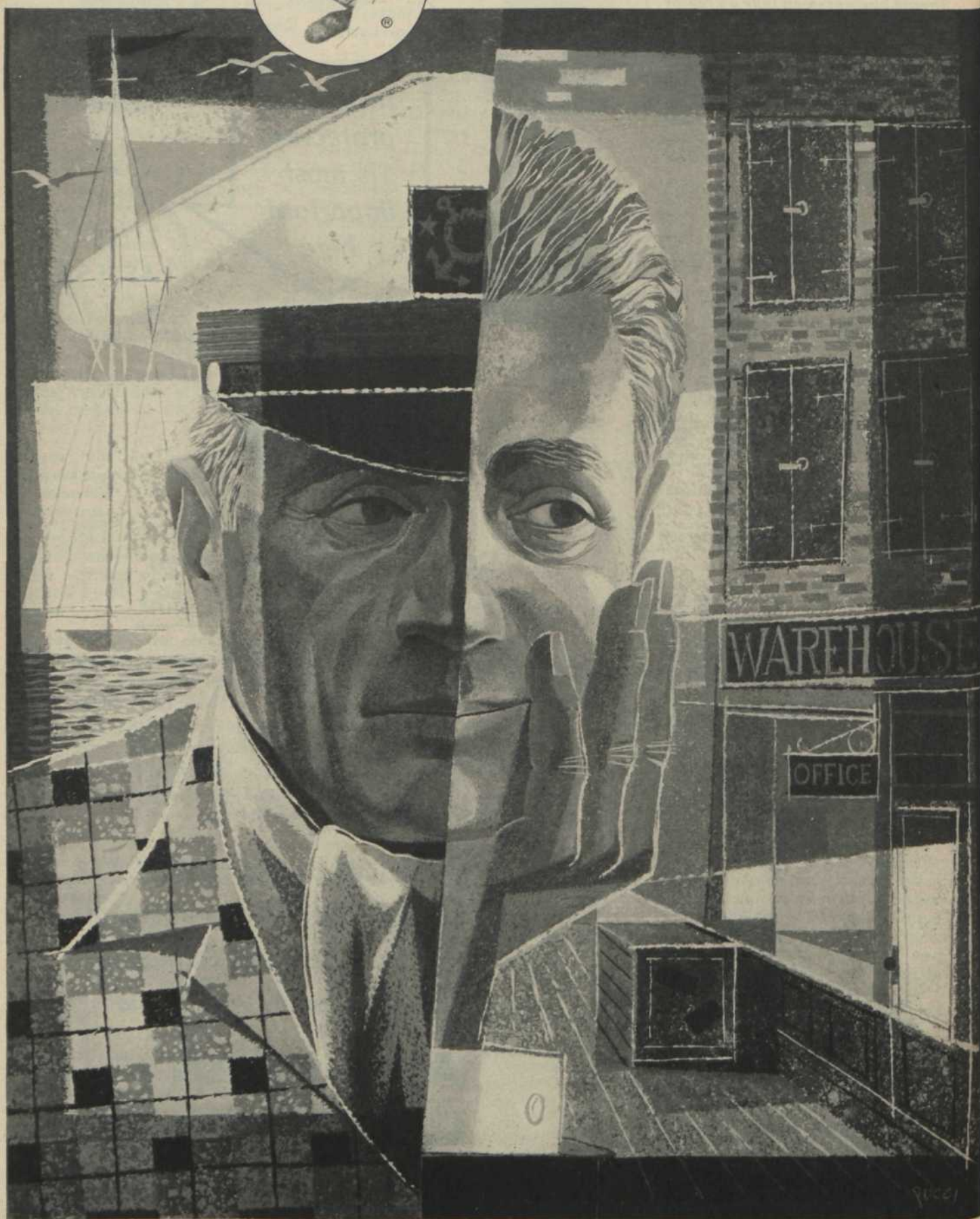
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# WHY INDUSTRY IS





# MOVING TO CHESSIE'S RAILWAY

## The man who couldn't retire

This man—let's call him Jim—had sold out his business for a tidy fortune. He had all the money a man really needs but in a few months he got restless. The only business he knew was closed to him by the terms of his sales agreement. So he came to us for ideas.

We told him of a city on our lines that needed a merchandise warehouse. We also knew of a building well suited to this use that could be bought at a fair price. Jim looked into it and it looked good.

"The only trouble," he said, "is that I don't know a blasted thing about warehousing."

So we fixed that, too!

We knew another man—let's call him Bill—who had a very successful warehousing operation in another city. We brought them together and they hit it off fine.

Bill went over the proposed new warehouse and liked it so well he offered to take a minor-

ity interest in the project and help run it till Jim learned the ropes.

The warehouse is doing so well they have recently built a large addition.

Of course this is an unusual case, but as a service organization, we welcome doing the unusual and performing other services for any business considering a new location. C&O's Industrial Development Department has an encyclopedic knowledge of the territory that Chesapeake and Ohio traverses—its geography, its people, its resources, its opportunities. Our function is to give you the facts.

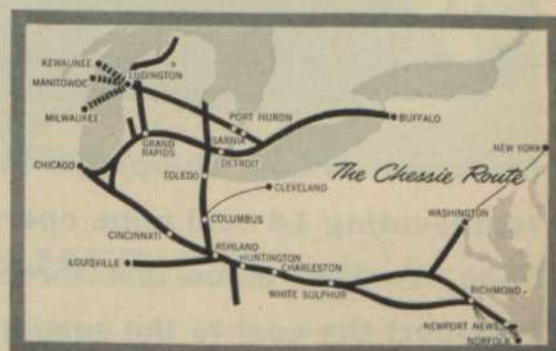
All inquiries are handled in strict confidence. If you wish, we can arrange to have negotiations with owner, zoning authority or other civic body handled anonymously. When you call upon us, you will receive every assistance from our staff of experienced industrial specialists at no cost to you.



Write for new booklet describing industrial resources and opportunities in C&O territory. Address: Wayne C. Fletcher, Director of Industrial Development, 3202 Terminal Tower, Cleveland 1, Ohio.

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OHIO • INDIANA • MICHIGAN • SOUTHERN ONTARIO





# Industry, union join in sales plan

## New partnership tests way to capture growing market

PROGRESS of a bold experiment in self-help to bolster an industry's markets is being watched closely by other businessmen to determine if the idea is adaptable elsewhere.

The novel venture is expected to answer two basic questions:

1. Can management and a labor union successfully join together as owners of a business enterprise?
2. Can they enter and compete in an established industry—not their own—and provide a service which will help insure the success of their primary enterprise?

The experiment is being made by American Coal Shipping, Inc., a \$50 million company which coal producers and exporters, coal-carrying

railroads, and the United Mine Workers organized just a year ago. Its purpose: to provide shipping at stable rates to open new markets and help meet the rising demand for coal in Western Europe.

Supporters point to many benefits which will stem from the operation: Business will increase for coal operators, railroads, shipyards, suppliers, and others.

Labor will have more jobs and more work, particularly in the coal mines, on railroads, at docks, and aboard ships.

Government will collect more taxes and realize savings from the charter of moth-balled Liberty ships.

Our Merchant Marine will be strengthened.

Europe and other parts of the world will get more of the coal they need, and more from the United States, thus strengthening our international relations.

This is the problem which led to the formation of ACS:

The industrial recovery of Western Europe has created an almost insatiable demand for coal, particularly metallurgical coal used in steel-making.

The United States has the coal, but has lacked the shipping to carry it to foreign ports. About 99 per cent of the 48 million tons shipped abroad last year moved in foreign vessels.

Basic coal shipping rates between Norfolk, Va., and Rotterdam fluctuated drastically. The rate was \$11.60 a ton a year ago, \$17.40 in November, \$6.58 a month ago.

While our coal mines are more efficient than European mines, producing about 10 tons of coal per miner per day (10 times as much as European miners), sales to Europe are affected by rates set by shippers, mostly foreigners. Through ACS, coal operators, railroads and mine union set out to correct this situation by starting their own shipping company so that they could influence shipping costs and sell European markets at a delivered, instead of FOB, price.

Today American coal is being laid down in Hamburg competitively with coal from the Ruhr, despite the fact that it costs three times as much to operate an American-flag vessel and American miners are earning an average of more than \$24 a shift.

John L. Lewis, president of the United Mine Workers, six years ago interested leading coal operators in joining with the union in a shipping company which would utilize moth-balled Liberty ships.

Talks were held with the Office of Defense Mobilization and the State Department, but nothing materialized from them.

Interest was revived a year and a half ago by Joseph E. Moody, president of the Southern Coal Producers Association, whose group provides 90 per cent of coal exports. Exports take one third of the South's coal output and represent about two days' operation a week of the mines. The southern mines cannot operate full time on the present domestic market, he says, so it became necessary to maintain, and if possible expand, the foreign market.

The price of coal at the mine had been stable, Mr. Moody explains, but shipping costs over which coal operators had no control could keep them from being competitive in the foreign markets they need.

"I believe the producer has a re-



**On American Coal Shipping's Board sit directors representing 14 coal mine operators, the United Mine Workers union and three railroads which transport the coal to the seaports**



# Insuring Berea College

***...the school of skills***

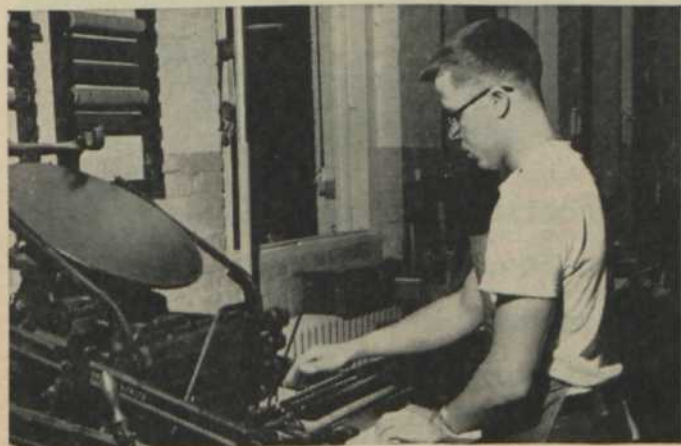
Extra value makes the difference

IN THE Cumberland foothills, Daniel Boone's Kentucky country, Berea College was founded to promote the "spiritual and material welfare of the mountain region of the South." Students combine the time card with the classroom. They work at Berea College to help pay their expenses. The growth and success of this unique institution won world fame.

Berea's education and work activities fill over 100 buildings which are different in construction, but alike in loss potential. For twenty years, INA, through independent insurance agents, has advised and protected Berea against loss. Besides policies covering properties and legal liability, INA supplies technical service on a continuing basis. Its surveys suggest ways to prevent fire, increase safety and reduce the cost of insurance.

All this is 'extra value' in the protection and service INA provides. Your company or institution, whether large or small, can get it through your INA agent or broker. Ask them how this 'extra value' can be yours.

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## INDUSTRY, UNION

*continued*

sponsibility to take care of the consumer," Mr. Moody, now secretary of ACS, told NATION'S BUSINESS. "We had to provide a delivery service, and deliver coal to the site at a competitive price."

After some discussions with affected business groups and Mr. Lewis, as well as studies and surveys of the situation, ACS came into being last June.

ACS is capitalized at \$50 million, with three groups each owning one third. They are the United Mine Workers; the three railroads which carry coal to Hampton Roads, Va. (from where practically all export coal is shipped), the Chesapeake & Ohio, Norfolk & Western, and the Virginian; and 14 coal mine operators and exporters.

All groups are represented on the Board of Directors. Richard L. Bowditch, chairman of the board of C. H. Sprague & Son Company, Boston, and president of Sprague Steamship Company, a subsidiary, is chairman of the ACS board. He is a former president of the Chamber of Commerce of the United States. W. C. Brewer, former head of Tidal Shipping Company, ship brokers and agents, is ACS president.

Mr. Bowditch visualizes the venture as one way to strengthen our Merchant Marine, which he considers "our fourth arm of defense."

"We need more American-flag

ships—a reliable source that the coal industry can call upon and that the country can depend upon in times of emergency," he says.

He also is impressed with the impact our labor-management teamwork has made abroad.

"The coal carriers are the best salesmen for free enterprise," Mr. Bowditch says. "Every time one of our ships docks, the people can see the way labor and managers work together under our system."

ACS is a certified common carrier for overseas bulk trade carrying coal, grain and ore—first come, first served, on a charter basis. It has 10 Liberty-type ships of about 10,000-ton capacity in operation.

Six have been chartered, out of 30 authorized by the U. S. Maritime Board, from the reserve fleet of Liberty ships.

One was purchased outright for \$775,000.

Three are being used by ACS from a fleet of 18 ships owned by a subsidiary, A. H. Bull & Company, which ACS acquired in December. The Bull Line provides general cargo service to Puerto Rico.

ACS hopes to get authorization to charter a total of 80 Liberty ships from the reserve fleet, but these will be only stopgap until it builds its own larger colliers. One of 20,500-ton capacity is on the drawing boards. The ships will be built in American shipyards.

Present capacity with the 10 ships is about 900,000 tons of export a year, less than two per cent of total exports. To have any real impact



**Every 10,000-ton coal ship sailing for Europe means:**

**100 days' work for 10 miners—\$2,400 for each**

**\$70,000 for coal at the mine**

**\$40,000 in railroad transportation**

**\$65,000 in ocean transportation**

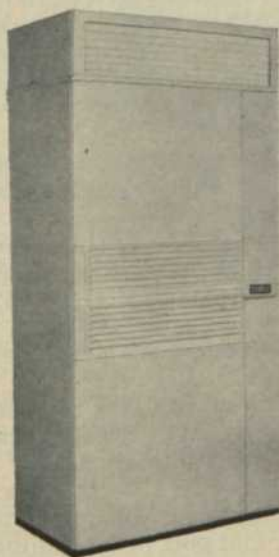
*And the delivered price is still lower  
than that of European coal*



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# THE BASICS



## INDUSTRY, UNION

continued

on shipping, the capacity will have to increase tenfold, to about 9 million tons, according to Mr. Moody. This will require 100 Liberties, or larger ships built by ACS, which will also cut costs.

Larger ships of between 20,000 and 30,000 tons would require enlargement and improvement of foreign ports, because few of them have the 36-foot depth of water which a 30,000-ton ship will need.

The prospects for increased shipping space to help satisfy the growing foreign market for coal, which Mr. Bowditch predicts will reach 70 million tons by 1965, has already resulted in large capital investments by related business interests.

The three railroads which carry the coal to Hampton Roads are spending \$230 million for new loading piers, improved facilities, and coal cars.

The C. & O., which loaded a record 20 million tons for overseas shipment last year, has completed a \$3.5 million coal pier and started another one for completion in 1959 at a cost of \$15 million. It expects shipments this year to increase one third over last year's record.

Walter J. Tuohy, C. & O. president, calls ACS "partners in prosperity." He visualizes American coal exports eventually reaching 100 million tons a year.

Coal producers are reported to be spending about \$100 million this year to increase mine capacity, on top of \$300 million spent last year to raise capacity and lower costs.

Other economic benefits of ACS operations:

Each 10,000-ton Liberty ship that leaves Hampton Roads represents 100 days' work and an average \$2,400 in pay for each of 10 miners. About \$70,000 will be paid for the coal at the mine, \$40,000 for rail transportation, \$65,000 for ocean transportation. Forty seamen will have jobs.

For every 10,000 tons of coal mined, \$10,600 is spent for repairs and supplies.

On every Liberty ship chartered, the United States government will realize \$147,000 a year—\$127,000 charter fees and \$20,000 it won't have to spend to maintain the vessel in the mothball fleet.

A total of \$200,000, ultimately to be paid by ACS, is being spent to activate each Liberty ship.

A fleet of 30 Liberty ships using Hampton Roads will bring \$20 million to that port in expenditures for food, repairs and payrolls. **END**

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Detailed information is presented in our brochure, "A Treasure Chest in the Growing West." For a copy, write, wire or phone to W. A. Huckins, Manager, Business Development Department, Dept. 44 Utah Power & Light Co., Salt Lake City 10, Utah. Inquiries held in strict confidence.



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# Short cuts with Recordak Microfilming

*Latest reports on how this low-cost photographic process is simplifying routines for more than 100 different types of business . . . thousands of concerns*



## KEEPING UP WITH THE STORK

MEDINA, OHIO

No matter how fast the Medina County birth rate rises, you can count on its Health Department's record-keeping being up to date. Completely accurate, too.

Vital statistic records, which must be copied for the office file and forwarded to the State Capital, are now photographed in a Recordak Junior Microfilmer. This does away with tedious typing—and mistakes. A record that took 15 minutes to type is now copied in a *second*! At least \$3,000 per year is saved on typing alone. Other savings: 98% less file space is required, and large-size paper prints can be made from film records right in the microfilmer whenever needed.



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The pilot above holds 4,628 microfilmed drawings in his hands—all the plans needed to build the Lockheed F-104 Starfighter, world's fastest jet fighter—called "a missile with a man in it."

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The 125-year-old S. S. Pierce Company is world-renowned for its products, customer service, and handsome catalog, *The Epicure*, which is distributed semiannually to more than 100,000 connoisseurs of fine foods.

Recordak Microfilming makes it easier to bill the thousands of charge account customers who order through *The Epicure* or trade directly with the firm's eight stores (three in Boston, four in suburbs, one in West Hartford, Conn.). This low-cost photographic process lets S. S. Pierce return the original sales checks to the customer with a brief statement—does away with typing an itemized bill. This reduces billing costs and eliminates copying errors and delays in mailing, as well.

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## HOW SECOND HALF LOOKS

# CONFIDENCE GROWING FOR REST OF '57

### Economists tell what they expect for business in coming six months

CONFIDENCE in the economic future is growing as we enter the second half of the year.

This is the opinion of economists in business, universities, banks, research organizations and government agencies.

In Washington, Congress' Joint Economic Committee staff views prospects like this:

"A gross national product of about \$435 billion still seems likely this year. The misgivings with respect to the immediate economic outlook which prevailed in many quarters earlier have noticeably lessened."

The increase in confidence appears general throughout the country, with some sections showing a greater rise than others.

From Minneapolis: "Business activity here may be characterized as in a sidewise movement, with offsetting adjustments continuing. The sidewise movement . . . is a more favorable development than many people expected at the turn of the year. As a result, there is less talk now of a recession. This shift in thinking stems from the good showing made recently by most of the district's business indicators."

From Philadelphia: "For the first few months of this year it seemed as if the gloom in some business circles was thick enough to cut with a knife although the facts never looked as bad as some made them sound. Nonetheless, many were caught by this mood. To some extent, 1957 was written off as a second-best year. Slowly the mood is changing. . . . Manufacturers have upped their sights since last fall."

From Richmond: "Business activity is moving up, down, and sideways—with the net balance being slightly on the favorable side."

From Atlanta: "Consumer prices, employment, output, and spending have reached or stayed near record highs, and a few economic sectors that were weak last year have continued so."

From Kansas City: "There are accumulating signs of greater caution in inventory buying, but little evidence that stocks are generally excessive in relation to current sales, or that widespread attempts to liquidate inventories are occurring."

From San Francisco: "Expansive forces generated by increased activity in aircraft, missiles, and heavy construction still outweigh weaknesses in other sectors. The economy should continue to expand, although gains in the near future may not match those of a year ago."

Fred F. Florence, of the Republic National Bank of Dallas, views prospects for the remainder of the year this way:

"This rolling, sideways movement cannot continue for long; we shall break out in one direction or the other."

"In my judgment, the factors of strength must be given the heaviest weight, and I should therefore expect additional pressures of expansion later in the year."

A big question as some economists see it is: Will consumers buy?

General feeling is that they will. Wilson Wright, Procter & Gamble Company economist, said recently that surveys show consumers ex-

pect higher prices and that they are "favorably disposed toward buying."

Mr. Wright added: "Although household and personal inventories of goods must be considered to be at a record level, there is no evidence that consumers are not in a position to continue buying a large volume of goods."

"... It may be expected that total retail sales will be increased at an annual rate of three or four per cent during the second half of the year—unless something happens to change consumers' expectations."

Could consumers' attitudes be changed? Yes, says Mr. Wright.

"If business profit margins are reduced, management presumably would attempt to get along with less inventory, and investment in plant and equipment might not be continued at so high a level because the earnings to finance the continuation of such investment would not be available. If business investment in plant and equipment is not continued or if inventory investment actually is reduced, disposable income would be affected."

Under these conditions, he said, the prospect of a retail trade increase might not be realized.

"It may be concluded, therefore, that profit margins are a critical and key factor in the outlook for consumer expenditures in the second half of 1957."

One economist in Washington believes consumers today are so well supplied with dollars and credit that retail sales conceivably could remain constant, from the dollar standpoint, even during a shallow, if not too prolonged, dip in total economy. This would depend on confidence, he says, and confidence now is high.

“The mood is changing. . .  
Manufacturers have  
upped their sights”

“Positive leadership  
by the businessman who  
refuses to be shaken by  
momentary setbacks  
will provide the economic  
guidance essential  
for progress”



This economist looks for total goods and services to reach the annual rate of \$440 billion in the fourth quarter, rising from \$429 billion, the average annual rate in the second quarter. He expects personal consumption to rise to an annual rate of about \$283 billion, an increase of about \$6 billion over the second quarter.

Indications are that the annual rate for personal income will rise to about \$347 billion by the fourth quarter, compared to an annual average of about \$340 billion for the second quarter.

The Federal Reserve Board's index of industrial production, now at the annual rate of about 145, is expected to average about 147 by the end of the year.

Although the outlook for business generally is good, not all sectors of the U. S. economy are sharing prosperity alike. For example, construction and automobiles are not keeping pace with total economic progress during the year.

For construction, opinions are mixed. Philadelphia Federal Reserve economists say:

"For the construction industry as a whole . . . the current situation still compares favorably with a year ago. Activity in some fields of non-residential building is still expanding, while high-level operations remain in prospect in others."

One business economist in New York said recently: "Refusal to face a mild contraction (in construction) is unrealistic."

The Joint Economic Committee is on the optimistic side regarding construction. Its report says: "Housing activity appears to be near the end of the decline which began in 1955."

Housing starts this year are expected to be no higher than last year; in fact, may even decline slightly, despite a recent seasonal upturn. Total dollars spent, however, may compensate somewhat for the overall decline in residential building.

On the outlook for automobiles, only the used car market shows much strength. For the new cars, a Ford Motor Company official, J. C. Doyle, explains that his company is looking forward to a period of benefits from its postwar capital investment program. He said: "It is up to the businessmen to generate and maintain a kind of confidence that will keep our economy healthy."

He added: "Active, positive leadership by the businessman, who realizes that there will continue to be problems but refuses to be shaken by momentary setbacks, will provide the American public with the economic guidance, reassurance and optimism essential for progress." **END**



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# NEW WAY TO USE FACTS

This six-part course helps executives to understand problems, make decisions

TRAINING IN THE LOGIC of business thinking is helping many managers and management trainees to a new comprehension of business problems.

The approach was developed by Dr. Raymond J. McCall, psychologist, and Mrs. Irma T. Halfter, reading counselor, of De Paul University College of Commerce.

In developing a reading course for commerce students, Dr. McCall and Mrs. Halfter found that increased speed failed to solve the basic problems of those taking the course. Many were able to develop extremely high speeds for reading and understanding certain types of material but were unable to comprehend other types.

Out of six years' work with undergraduates has

grown a one-semester evening course for executives. Conducted by Mrs. Halfter, who also serves as an independent management consultant to many Chicago firms, the course assumes that those enrolled are proficient in the comparatively simple technique of reading for the purpose of gathering facts. It concentrates on the much more difficult art of reading for judgments or generalizations and the evidence presented in their support.

As they learn to read on management problems in this way, course members also are trained to write and to think on such problems with straightforward clarity.

The course is divided into six parts:

- ▶ Information versus generalizations.
- ▶ Distinguishing between *what* and *why*.
- ▶ Using the scientific method to generalize on management problems.
- ▶ Stating generalizations.
- ▶ Resolving contradictions.
- ▶ Creative contradictions.

## Information versus generalizations

Early in their work Dr. McCall and Mrs. Halfter discovered that most high schools do a fair job of training students to read for information. This is the only skill needed for most narrative reading and for light reading in general. It is essentially reading for pleasure.

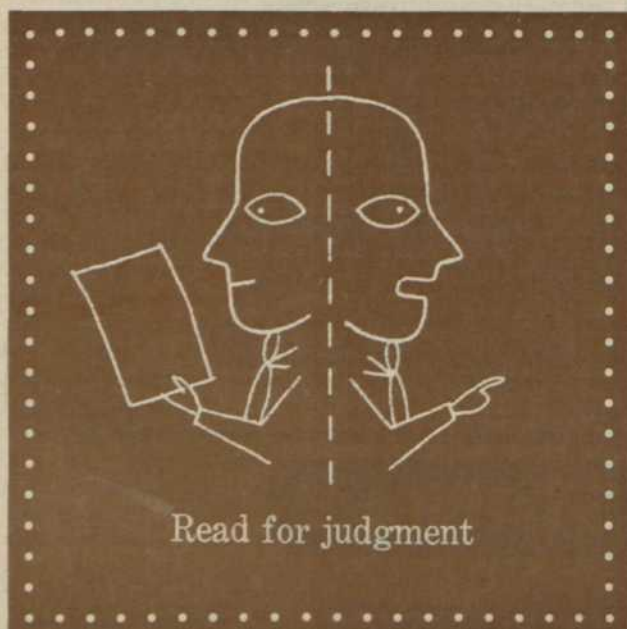
"Sleuthing for facts," Mrs. Halfter puts it, "has wide appeal. But those in responsible management positions need not only the ability to find facts but the ability to see beyond them to the principles they illustrate. That is the mark of professional understanding in business as well as in law, medicine and the sciences."

For example, the statement "most ripe apples are red" is a bit of information. You can accept it or reject it as it fits your experience. Or if you have no experience in such matters (if you happen to be blind or color-blind) you accept such bits of information if they fall within the realm in which you are willing to trust whoever provides them.

But suppose you are planning a new product—say, an apple-flavored gum drop. You want to persuade your customers to associate it with luscious ripe apples. In considering what color to give it, you easily arrive at the statement: "The color most people associate with ripe apples is red."

This is a generalization, not an observed fact. You have felt no need to query all your potential customers, nor even a random sample of them, about what color they associate with apples. You have taken the single observed fact that most ripe apples are red and have generalized on the basis of it. It is so easy and obvious a generalization that you make it almost automatically. (Sometimes the very obviousness of a generalization can be a trap, as will be developed later.)

Most business writing, whether in textbooks for general study or secret reports for top management, is done for the purpose of presenting generalizations, either definite or tentative. Mere narration of the facts would be avoidance of responsibility. Both the textbook author and the production manager are paid







Facts are raw material

to interpret facts. The students and the company head want and need the best generalizations the writer can make, backed up perhaps with a selection of facts to make clear the full meaning of the generalization but not buried under a mountain of them.

Refusal to generalize can be disastrous. Or, as Mrs. Halfter puts it:

"The guts to generalize is the mark of a good executive."

One of her students, an executive of a firm which manufactures flooring materials, came up with an illustration of the importance of generalizing. In its first year the firm made only three types of flooring, then gradually expanded the line. One of the first salesmen hired did extremely well on the road with the three initial products and was made sales manager when the sales force expanded.

Bit by bit the firm enlarged the line until it was making some 50 different types of flooring, the types varying in materials, size of component units, range of color choice and other ways.

The volume of sales increased more or less satisfactorily, but the cost of sales fairly zoomed. A consultant was called in.

He had little difficulty spotting the trouble. In his days on the road the sales manager had simply shown all his small line to each prospect and had left the choice up to him. In spite of the enormous increase in the size of the line he continued to insist that his salesmen show each prospect the full line though only a few items were suitable for any one prospect. The idea of generalizing, of setting up categories of items most likely to be suitable for different types of prospects, hadn't even occurred to him.

**Summary:** Facts are merely raw material until they are organized so that general meanings can be extracted from them.

### Distinguishing between *what* and *why*

Narration of facts usually consists of reports of how, when and where certain events took place and who was involved in them. Generalization is a statement

of what the facts mean. It usually is accompanied by an analysis of why they mean this.

Even after they have learned to distinguish between narration and generalization, Mrs. Halfter has found, her students often have difficulty separating *what* from *why*. Sometimes this is because of the way the generalizations are presented.

Ideally, the writer of a text or report offering a generalization should present it at the beginning of the section or paragraph devoted to it, then go into the evidence backing it up.

But writers of business reports often seek to persuade more gradually and gracefully. Also, some generalizations may be too complex for such presentation.

Although there are no rigid rules for spotting a generalization, Mrs. Halfter and her students have noted a few helpful clues. They have found that, in a well organized report, the generalizations usually are presented one at a time, either in single paragraphs or in a group of paragraphs set off from other groups by a subhead.

And in addition to the preferred method of stating the generalization at the beginning, there are four other common methods:

1. Generalization in part at the beginning with completion appearing later.
2. Generalization in complete form at the beginning with a restatement in other words appearing later.
3. Tentative generalization in complete form at the beginning with an important exception or flat contradiction and new generalization appearing later. If the later item is merely an exception, the clue words for its introduction usually are *but*, *yet* or *in contrast*. If it is a contradiction and substitution, the clue words usually are *however* or *in contradiction*.
4. Generalization at the end. In this case the clue words are likely to be *therefore*, *hence*, *so*, *then*, *thus* or *in conclusion*.

One of the chief causes of difficulty in spotting and grasping the generalization, the *what*—Mrs. Halfter



Distinguish what from why





has found—is the tendency to quibble over the evidence supporting it, the *why's*. This tendency is partly a result of ignoring the whole purpose of a generalization. It is not intended to explain every single fact. It is an approximation intended to explain most of the facts, to cover most of the contingencies.

As an example of the importance of subordinating the *why's* to the *what's*, she likes to cite the U. S. Supreme Court practice of permitting separate but concurring opinions. Even when the Court's decision is unanimous, it often issues two or more opinions explaining the reasoning that led to the decision. Different justices see the issues in different lights and arrive at their conclusions by different routes.

But the justices' disagreement over the *why's* does not prevent their agreeing on a generalization covering the issues.

In business the failure to make a clear distinction between *why* and *what* can be extremely costly. An executive of an electric appliance manufacturing company supplied Mrs. Halfter's class with a clear example of this. Sales of one of his firm's products were lagging, and staff meetings were held to discuss the problem. At each meeting different explanations for the sales lag and suggestions for remedying it were proposed.

The advertising manager pointed out that his budget for the product had been stationary for several years. He presented the outline of a new campaign.

The production manager proposed a big capital outlay for a new, automated process which would cut unit costs almost in half, make possible a retail price reduction.

A distribution expert suggested a new and more efficient warehousing system.

Other departments worked out similar specific plans.

Only after several weeks of expensive executive and staff time had gone into these assorted *why's* did the top management get around to the all-important *what*. This meant a generalization on the subject of the sales lag taking into account all the *why's*. It finally emerged as a conclusion, based chiefly on an inde-

pendent market survey, that the product was obsolescent and should be dropped.

**Summary:** It is wasteful and frustrating to concentrate time and energy on any one of the factors in a situation when the purpose is to arrive at a generalization about the meaning of all the factors.

### Generalizing on management problems.

"It is my contention," says Mrs. Halfter, "that a businessman must use the scientific method to stay in business."

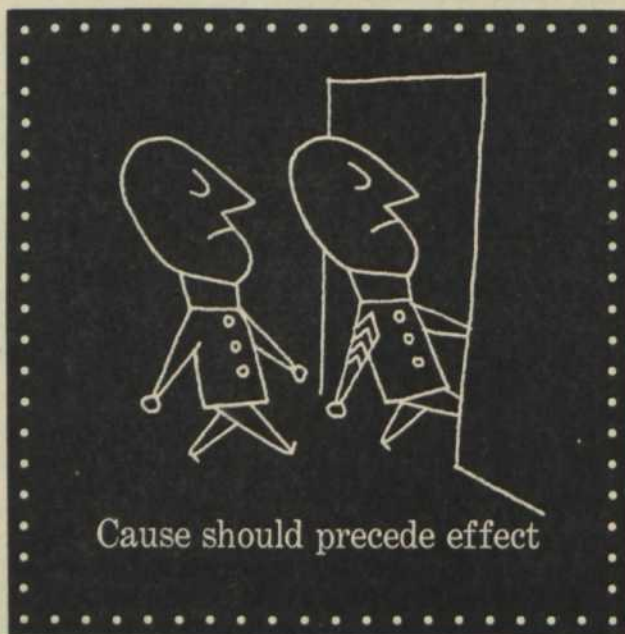
If you think of the scientific method as a matter of test tubes, cyclotrons and abstruse mathematical formulas, this sounds a bit portentous. Actually, it is a simpler and far more profoundly important matter. It is a method of reasoning: first, inductively about a collection of facts to produce a generalization; then, deductively about the application of this generalization to other facts. Most men capable of reasoning at all clearly use this method half-consciously or unconsciously, but it is much more effective when applied with fully conscious awareness of each of the steps.

In the case of high sales costs in a flooring material firm the generalization needed was one establishing and relating categories of products and prospective customers. With the facts at hand it was a simple matter to divide both products and prospects into several groups—products by cost, load capacity, size of units, etc., and prospects by their types of business.

Then came the first inductive step in the form of an hypothesis: The *a* group of products were best suited for the *a* group of prospects, *b* for *b* and so on. Next came the testing of the hypothesis by having the salesmen try the system for a while.

With a few adjustments suggested by the salesmen it worked well. This led to the deductive step, which seems to be deceptively obvious: "The system works—use it."

But never forget that the system is a generalization, that it is not meant to cover all contingencies,





that more and more exceptions probably will turn up and that sooner or later it will be necessary to revise the generalization to take account of the accumulated exceptions or the system will lose its value.

The exceptions are new facts that were not available at the beginning, and readiness to accept them and to adjust the generalization to take them into account is an essential part of the scientific method. They don't necessarily disprove the first generalization. They enlarge it. Modern physics has not disproved the extremely useful theories (generalizations) of Sir Isaac Newton. It has enlarged them to take account of facts unknown to Newton.

Besides establishing and relating categories, another common business use of the scientific method is in establishing a cause-and-effect relationship among facts. The problem of a decline in the productivity of a stenographic pool in a large firm provides a simple example.

Facts immediately available about changes that had occurred at or near the beginning of the decline:

1. The personnel department had begun hiring larger than usual numbers of married stenographers.
2. About one third of the members of the pool had been equipped with electric typewriters.
3. Instead of a 15-minute morning and afternoon break, during which they could visit a snack bar on a lower floor, the stenographers were given five minutes every hour and refreshments were served free at their desks.
4. Two stenographers had quit to marry male employees.
5. The accounting department had begun using a facsimile machine for work it formerly assigned the stenographic pool, but this had resulted in no decrease in the number of stenographers employed.

**HYPOTHESIS 1:** Married stenographers are less productive than single ones.

**TEST:** The records revealed that the productivity of married and single stenographers was about the same.

**HYPOTHESIS 2:** Electric typewriters result in decreased production.

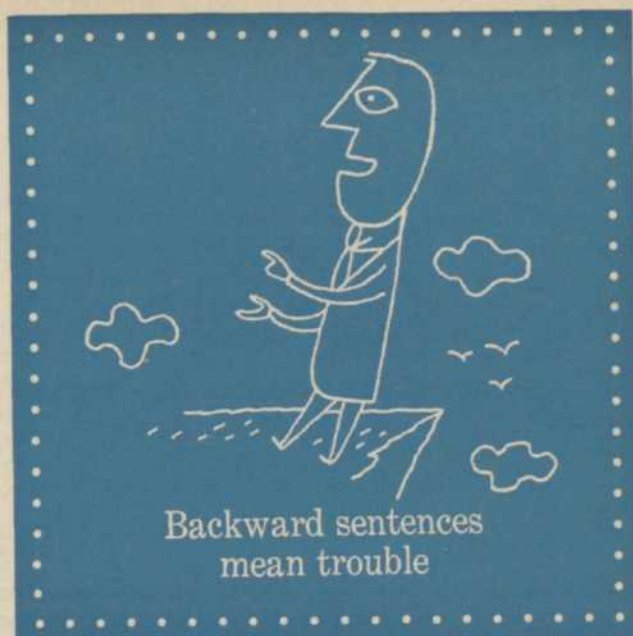
**TEST:** The records revealed that the stenographers using electric typewriters were more productive than the others and that the whole decline in productivity was in those not equipped with electric machines.

This led to **HYPOTHESIS 3:** The stenographers not equipped with electric machines were consciously or unconsciously slowing down.

**TEST:** The records revealed that, when they were given electric machines, the output of several stenographers had increased more than could be accounted for by the mechanical advantages of the new machines. Furthermore, discreet interviews revealed that those who did not have electric machines were jealous of those so equipped and discouraged by the greater output of the latter.

**FURTHER TESTS:** Neither the records nor interviews revealed any significant influence on output in facts (3), (4) and (5).

**DEDUCTIONS:** 1, the output decline could be reversed by equipping all the stenographers with electric ma-



chines; 2, since the stenographic pool's budget made it necessary to accomplish this gradually, new incentives for those equipped with nonelectric machines should be tried, and it would be a good idea to try, as one of these incentives, the assignment of new electric machines, as bought, to those stenographers whose output was greatest on nonelectric machines. (Note that this last is a further experiment which will produce new facts to be taken into account as they become available.)

Even in this comparatively simple application of the scientific method there was a hidden trap accidentally avoided. By chance, about the same number of married and single women had been assigned the new electric machines. If nearly all the electric machines had been assigned to single women, the records would have appeared to substantiate Hypothesis 1.

This leads to an important warning. The fact that a certain effect follows a certain possible cause in time is not proof that the two stand in cause and effect relationship. All other possible and ascertainable causes also must be investigated. In the stenographic pool case even if Hypothesis 1 had appeared valid, further investigation would have revealed that the facts also appeared to substantiate Hypothesis 3. This would have kept the way open for tests of both hypotheses and the eventual discarding of Number 1.

**Summary:** The scientific method of solving problems consists of five steps: 1, assembling observable facts; 2, making hypotheses about their meaning; 3, testing these hypotheses; 4, deducing the course of action indicated by the accepted hypothesis; 5, keeping the hypothesis and the course of action open for alterations indicated by any new facts that may later become available.

## Stating judgments

In her work on reading problems Mrs. Halfter has found four common practices of writers on management questions which tend to make things difficult for many readers.

1. Stating a judgment in a negative form leaves its



translation into the positive form up to the reader. Some readers can do this easily, but others have difficulty, will be forced to spend a lot of time over it and may get it quite wrong.

The statement, "No small part of our profit has been due to the increase in productivity per employee," is a good example. It leaves some readers wondering what part of the profit is referred to, may lead some to translate it as "no part," others as "a small part." There's no need for this. The statement should be in the form, "A large part of our profit has been due to..."

Similarly, such forms as "Without greatly increasing costs..." are awkward and unnecessary circumlocutions. Some will read this one, for instance, as a reference to either a great increase or no increase. The form "With a small increase in costs..." easily avoids this difficulty.

**2.** Sometimes all you can make is a negative statement. This is the case when you are seeking to eliminate one set of facts from consideration as a possible cause of an observed effect. Such a statement might be, "This is not a production problem."

On the surface this seems clear and unequivocal. But the human mind does not operate in a vacuum. Few can read such a statement without drawing or tending to draw further conclusions from it. When such a statement is made in a report to be read by all department heads in a firm, for instance, the distribution manager may think it means a distribution problem, the advertising manager may think it is aimed at his department and so on. Each, that is, may think it is pointed at him and him alone.

This can be avoided by extending the statement to suggest alternatives. One possible form: "We can eliminate production, and this leaves distribution, advertising and such and such other departments for consideration."

**3.** In a statement about a cause-and-effect relationship a reversal of their order often creates confusion. "Increased productivity is a result of more efficient production methods," is a simple instance of such a

reversal. Standing by itself it seems readily comprehensible. But as part of a discussion of a number of causes (morale, various incentives, etc.) which lead to the effect ("increased productivity"), its reversed order makes some readers stumble.

To bring this point home Mrs. Halfter cites the two phrases "result of" and "result in." The first is preceded by the effect and followed by the cause, and the second is preceded by the cause and followed by the effect.

Yet because of their similarity either can easily be mistaken for the other. Because cause-and-effect is the more natural order, there is a definite tendency to read "result of" as "result in."

**4.** One of the worst faults of which a writer on management questions can be guilty is failure to state judgments or generalizations. Writers prone to this fault marshal facts, suggest hypotheses, report on tests of these hypotheses, then leave the rest up to the reader. Inevitably, some readers draw conclusions not intended by the authors.

In Mrs. Halfter's experience this fault is commonest among subordinates in firms or departments headed by strong-willed men. No one wants to offend the boss.

If a boss demonstrates that he may be offended by a subordinate's making judgments or generalizations, his subordinates don't make them. As a result the firm doesn't get its money's worth from the subordinates, the boss loads himself with extra work and the subordinates either find other bosses or gradually lose capacity to make judgments through failure to exercise it.

**Summary:** 1, state judgments in positive form whenever possible; 2, when eliminating from consideration one of several possible causes, indicate that several still remain for consideration; 3, in statements about cause-and-effect relationships keep cause and effect in that order; 4, if you habitually indicate displeasure when your subordinates make reasoned judgments, expect them to become mere yes men.

## Resolving contradictions

Sometimes apparently similar lines of reasoning lead to contradictory conclusions. Usually, unspoken presuppositions are responsible for the difference. These presuppositions may be unconscious, or they may be conscious and deeply felt prejudices.

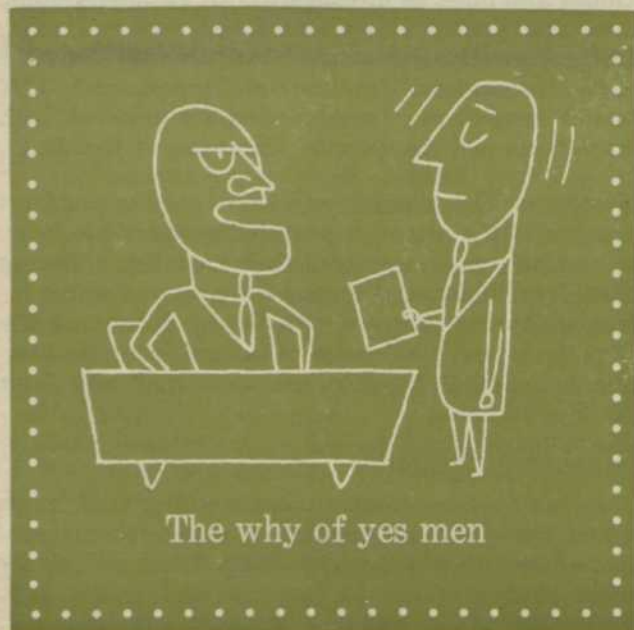
Mrs. Halfter advises that, in a serious book, the preface is the place to look for presuppositions. They may be clearly stated, or you may have to seek them between the lines. But a careful search for them can save trouble later.

In a staff situation, uncovering presuppositions may be more difficult. When two staff members start with the same set of facts and arrive at contradictory conclusions, it is highly probable that the difference lies in their presuppositions. Attempting to get at such presuppositions by direct questioning is likely to produce only antagonism.

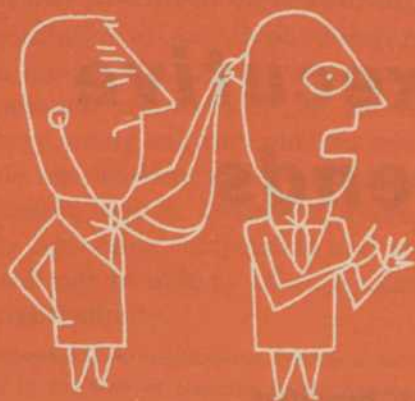
Mrs. Halfter suggests a neatly diplomatic formula for minimizing the antagonism.

First, read or hear each argument to its conclusion without interruption.

Second, reproduce the reasoning in your own words,







Listen for presuppositions

seeking the reasoner's agreement to each step as you go along.

Third, repeat his conclusion unaltered and ask him to think of other arguments in support of it. Unless he is ashamed of his presupposition or it is buried beyond recovery in his unconscious mind, he will produce it.

If you have to seek agreement to a choice between two contradictory judgments, Mrs. Halfter suggests a fourth step. This is to rephrase the preferred judgment and ask the author of the contradiction, "Wouldn't you say this is also possible?" By now he is getting used to the idea of having lost, and you can hope to get him to see the disagreement as a conflict of ideas rather than of personalities.

**Summary:** When similar lines of reasoning lead to contradictory conclusions, look for unspoken presuppositions.

### Creative contradictions

Although unspoken presuppositions may differ and thus call attention to themselves, they also may agree so cozily that no one gives them a thought. They can be more harmful in this way than when they produce heated emotional clashes. For in this way they smother originality.

"When his colleagues tell an executive that he's crazy," says Mrs. Halfter, "he probably ought to take a bow. In all likelihood he is calling into question some assumption, some presupposition, previously taken for granted. These are precisely the assumptions that most need re-examination."

Almost all such assumptions can be healthily, creatively contradicted. In the example of the apple-flavored gum drop the statement, "The color most people associate with ripe apples is red," constitutes such an assumption. This appears so obvious that it requires little or no thought. By tentatively contradicting it, you make it a subject for thought.

One line of further reasoning could begin with observation that some ripe apples are yellow. This would amount to little more than a quibble. Com-

paratively few ripe apples have yellow skins. If it is only the skins that are to be considered, red clearly is the dominant color.

But apples are not all skin. They are mostly flesh. Raw, it is a faintly greenish white; cooked, it becomes a light, golden brown. One of the most appetizing forms apples take is the golden brown slice in an old-fashioned, homemade apple pie. Here is a definitely worth-while new possibility.

Another example of a creative contradiction cited by Mrs. Halfter is the case of the premiums given to stimulate sales by a shortening manufacturer. At first he followed an obvious line of reasoning. Shortening is used chiefly for frying and baking, therefore frying and baking pans would make good premiums. They were tried and proved ineffective.

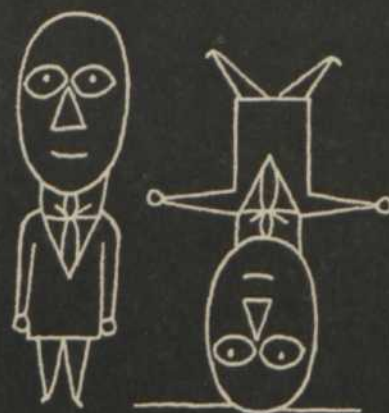
This led to a new line of reasoning. An attempt had been made to stimulate sales by offering premiums. The attempt had failed. Therefore shortening was not the kind of product sales of which could be stimulated by the offer of premiums.

At this point a staff member contradicted the hidden presupposition in this latter line of reasoning—that frying and baking pans were good premiums. Women, he pointed out, are the chief purchasers of shortening. Women have interests other than frying and baking. Perhaps it would be more effective to try to appeal to some of these other interests, say with perfume, cosmetics, stockings. He won approval for a test of his hypothesis, and the test was a brilliant success.

**Summary:** When you find hidden presuppositions at any point in a line of reasoning, test the effect of contradicting them.—ROBERT FROMAN

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DRAWINGS BY CHARLES DUNN



Try contradicting presuppositions





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## Executive Trends

### Executives' role will broaden

You hear increasing talk about this—at conventions, trade association meetings, management seminars, wherever businessmen gather. Behind the talk is the realization that management in the future will be called upon to assume much more responsibility in community, state and national affairs than it does now or did in the past. Business must take the lead in building a stronger America at the grass roots and in shaping public understanding and support of the free enterprise system. For managers as a group this heightened activity will involve more hours spent in civic, educational, religious and cultural affairs.

► *External pressures on the executive's time already are soaring. One plant official says they take up almost as much time as he puts into trying to show a profit. They come from unlikely sources, too. This same plant manager illustrates: "Police in my town have asked me to help them break up a gambling ring."*

### One basic challenge for leaders

As their role in society widens, executives will find themselves struggling against forces within America which, consciously or unconsciously, would destroy our unparalleled human freedoms and standard of living; forces which one university president describes as "those whose inner motives are predatory and not productive . . . whose ignorance of our economic system of today prompts urging changes that would overburden it . . . those who have lost faith in individualism, in freedom. . . ."

► *This internal threat is in some ways more ominous than aggressive world communism. Certainly it is more corrosive. It's the philosophy of collectivism and control, bigger government doing more things that individuals and local groups should be doing for themselves.*

### Capitalist revolution will come of age

Discussion of management's expanding social stewardship points up the fact that capitalism is entering its third and perhaps most crucial stage of development. First stage was the Industrial Revolution of last century. Second was the emergence of the professional managerial class to run, but not necessarily own, business. We are in this second phase now. Ahead is a further explosion of corporate responsibility—the expansion of management trusteeship in relations with employees, investors, consumers, government, to ultimate limits.

► *This critical third phase will make the corporation, in the view of at least*



one prominent student of corporate development, the key determinant of the pattern of American life in the remaining years of this century.

### **Future will put premium on leadership skill**

That's the conclusion of executives, educators, heads of professional management groups who have surveyed road ahead. The facts are simple. Population pressure will give the nation increasing numbers of the very young and very old, but not enough persons in the active middle age working group—from which come most of the nation's industrial leaders. Despite shortage, business and industry—facing ever tightening competition and increasing complexity of operation—will not be able to afford a relaxation of requirements for top job responsibility.

► This fact foreshadows stepped-up debate over what executive job aspirants will need in the way of training in the future. Some lean to more technical training, some to greater emphasis on liberal education. The answer is probably to be found in a balance between the two.

### **Top managers stress human relations skill**

Advance peek at a big new national survey of top executives (out this fall) points up emphasis which business leaders place on the ability to understand and deal effectively with people. It's of top importance. Men whose education lacked the subjects aimed at sharpening this skill say they miss it sorely now. Of specific subjects they took that are now useful to them, executives rate economics and English at top of list, psychology not far behind. Many tell young men seeking executive careers to get a liberal arts education.

► Training in the humanities, social sciences, other elements of liberal education will be big aid to future managers confronted with increased social responsibility. "A good manager today does all he can to advance society," says one executive.

### **Business schools' curricula will change**

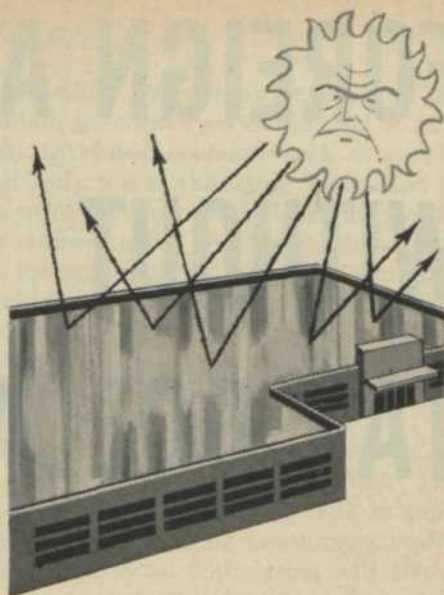
While no one questions the need for well rounded men at the top of U. S. business and industry, the problem of how to produce such men and still provide an adequate number of specialists must be solved. The nation's schools of business administration are wrestling with the problem now. They hope to develop a program that will produce special-generalists, men who are at home in both areas (see article on page 34).

► Features of future curricula will include: more attention to mathematics; more emphasis on the case method of study; use of electronic computers; new approaches to problem-solving, decision-making.

### **How important is the college sheepskin?**

This old debate is being revived with new vigor. The point being made by some businessmen is that a well educated college graduate is still just a college graduate looking for a job. He can't expect to start anywhere but at the bottom. The same executives stress the need for keeping doors of business advancement open to all with skill, natural ability, imagination, regardless of their educational background.

► One bank president puts his finger on the problem: "College kids are the biggest premium on the market today." This unusual situation, he adds, has made youngsters seeking jobs too cocky, too confident. "Why," he says, "some of them expect to be president of the company before the ink on their Social Security card is dry."



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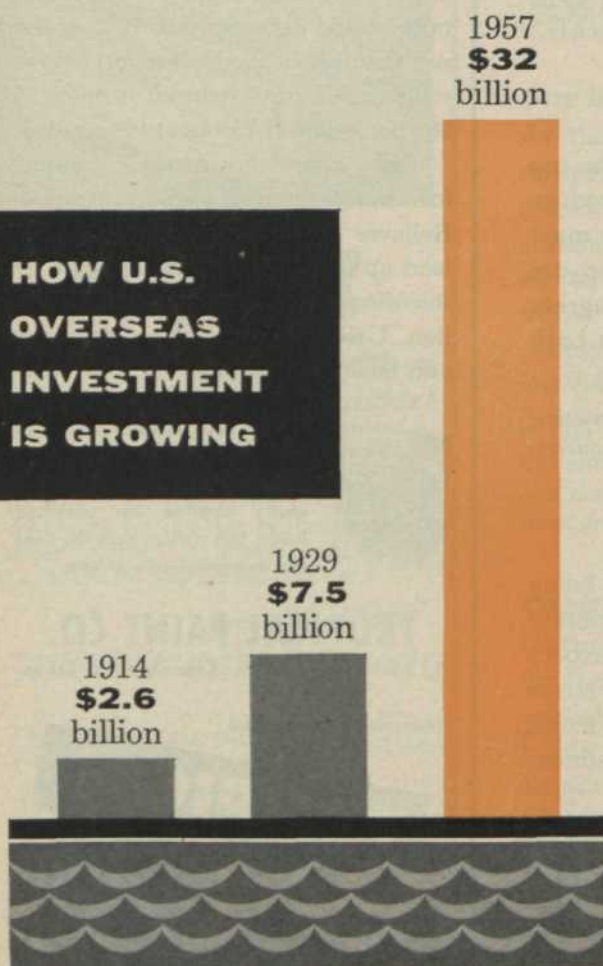




# FOREIGN AID WITHOUT TAX DOLLARS

Private business shows  
the way to help foreign  
countries, build markets,  
profits at same time

**HOW U.S.  
OVERSEAS  
INVESTMENT  
IS GROWING**



AMERICAN BUSINESS is conducting a foreign aid program which is not a strain on the fiscal resources of the nation. Instead, it is a revenue producer.

In addition, these private activities are giving the United States an important introduction to an unfolding overseas market. They're putting us in position to supply demands for goods and services which will be created as once-backward nations progress toward higher living standards.

Business' foreign aid program is our trade with foreign countries, and the investment of private U. S. capital in overseas business ventures.

This activity is rising sharply and promises to climb even higher in the years ahead.

As it rises, our foreign trade will mean:

- ▶ More business, more growth for firms now producing for foreign commerce
- ▶ Increased demand for U. S. merchant shipping to carry an increased volume of goods
- ▶ Greater profit opportunities for the companies, large and small, which supply firms producing for international trade
- ▶ Enhanced job continuity for the millions of American workers whose livelihood depends, directly or indirectly, on U. S. foreign trade.

While the prospect is promising, it will not be free of problems. Those who have studied our foreign trade outlook, however, believe that the problems can and will be overcome.

America already is the world's biggest foreign trader. Its international commerce is running well ahead of that of the United Kingdom and West Germany, which rank second and third, respectively, as merchants to the world.

Last year our exports—excluding foreign aid shipments—exceeded \$17 billion. That was an all-time high, greater than previous peaks of \$14.3 billion in 1955, \$14.0 in 1951, and \$15.3 in 1947. U. S. imports also are the world's largest. In 1956 they approached \$13 billion on the commercial level. Export and import volume this year seem certain to reach even greater heights.

Another important dimension to our foreign operations, and one which can be expected to grow, is the investment of U. S. capital. By the end of this year American investments overseas will probably top \$32 billion. That compares with \$7.5 billion in 1929 and \$2.6 billion just before World War I. In 1956 income on these investments exceeded \$2 billion, compared with \$1.9 billion the previous year.

In fact, all exchanges between this country and foreign nations are increasing, including travel of Americans abroad—much of it business-connected—which in 1956 reached \$718 million.

Still another important indication of the vacuum which American business can fill in a world rushing toward modernization is the vital matter of managerial and technical know-how. America's proficiency in both these areas is unparalleled. Recognition of this is growing in all parts of the free world. As a result private companies, management organizations, management consulting firms and other groups both private and government-sponsored are experiencing a sharp rise in foreign demand for advice and counsel.

Several factors underlie the confidence about our



future economic relations with foreign countries. Application of modern medical and sanitation techniques is lengthening the life span of millions of people in countries where birth rates are high. The result is the need for constant upward revision of estimates of the number of potential customers for U. S. goods.

Other factors include increasing urbanization and industrialization. Economies abroad are shifting from an agricultural to an industrial base, with the result that incomes and living standards are rising. With rising incomes and living standards come increasing demand for more and better goods—the kind of goods which American industry is equipped to supply.

Harvey Williams, president of Philco International Corporation, assesses the situation this way:

"Many growth potentials abroad are greater than those in the United States. We think of Great Britain as an advanced, venerable, highly organized economy. Nevertheless, out of 14 million British homes wired for electricity, less than 10 per cent use electric refrigerators—as compared with 94 per cent in the United States.

"Only 18 per cent use washing machines, contrasted with 85 per cent here.

"In the United States, we take running hot water for granted. Yet, in countries such as France and Germany, it is doubtful if more than 30 per cent of the dwelling units have any supply of running hot water. No wonder sales of consumer durables are in-

creasing more rapidly in such economies than they are here."

Of Latin America's 150 million people not more than a few million are consumers of the kind of things which a highly developed economy such as ours has to sell. But already this is changing. Education and the introduction of industry are broadening the horizons of these nonconsumers and half-consumers. Incomes are on the upswing, too, and the beginnings of a spending middle class, something almost unheard of until now, can be seen. This promises growing clamor for homes, better roads, motor cars, varied clothing, appliances, medical care and all the other marks of living in an advanced society.

In all of continental Europe, home of 180 million people, there are only 14 million automobiles. Here, too, is an area with great potential. The European Common Market plan, sweeping away many customs barriers and other artificial boundaries, will give the countries of Europe an opportunity to lower their production costs and increase productivity. As the living standard rises, demand for finished goods, specialized capital goods, and other types of products will be great. American companies and investors will share in this era of development. American private capital is already flowing into Europe in a flood much greater than that which flowed from Europe to America in our own developmental period from the Civil War until World War I. (continued on page 86)

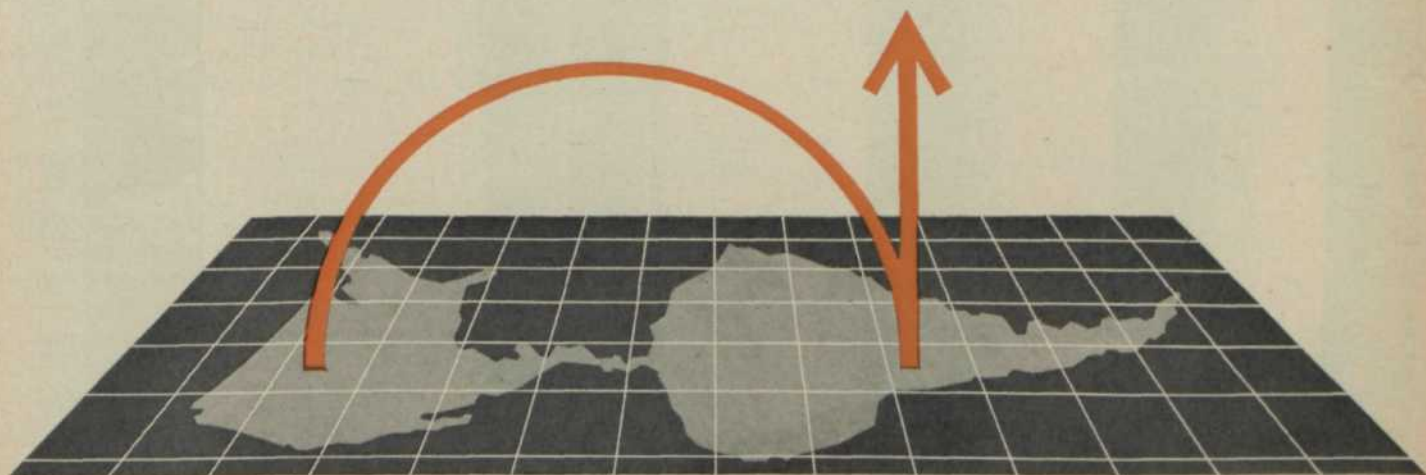
### WHAT U.S. FIRMS DID IN ONE YEAR IN LATIN AMERICA

Produced nearly **\$5 billion**  
of goods and services

Paid out **\$4 billion** for  
wages, taxes, local material

Made capital expenditures  
of **\$600 million**

Made long-term contribution  
to understanding of our  
aims and economic concepts





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SALES

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# 3 new films - good ones

The National Chamber presents three good, new motion picture films:

## 1. THE STORY OF CREATIVE CAPITAL

This is a humorous, animated, color film. It explains what American capitalism is, where capital comes from, and what capital does. It is both informative and entertaining. Its gay music and sprightly cartoon characters appeal to young and old alike.

The Story of Creative Capital was made for the National Chamber in cooperation with E. I. du Pont de Nemours & Co. (Inc.), and was produced in Hollywood by John Sutherland Productions, Inc.

16 mm, Technicolor, original music score, animated, 14 minutes, cleared for TV.

Rental for 30 days, \$15. Cost of print, \$110.

## 2. THE ATOM COMES TO TOWN

This film holds the interest—and has a purpose. It is designed to build a better public understanding of the peacetime atom, and to win greater public support for the development of this energy source by private business.

The Atom Comes to Town shows dramatically the many ways in which atomic energy and its by-products are being used today in industry, research, agriculture, medicine, and to generate electric power.

This film was made for the National Chamber in cooperation with 32 business firms and organizations. It was produced by Muller, Jordan and Herrick of New York.

16 mm, color, sound, animated and live action, 29 minutes, cleared for TV.

Rental for 7 days, \$15. Cost of print, \$160.

## 3. THE DYNAMIC AMERICAN CITY

This is a special-purpose film. It is for local business leaders, organization executives, and others who are actively interested in planning and building a better community.

The Dynamic American City shows how and why cities and towns change through the years—and what causes deterioration to set in.

More than that, this film shows specifically how various cities are successfully attacking urban blight, and what they are accomplishing. Produced by the National Chamber in cooperation with Frederick J. Bashaw.

16 mm, sound, color, live action, documentary, 26 minutes, cleared for TV.

Rental for 7 days, \$15. Cost of print, \$150.

For more detailed information about these three films—or for information about the National Chamber's special service, "Films to Explain American Business" write:

CHAMBER OF COMMERCE OF THE  
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## AID WITHOUT TAX

*continued*

This mounting demand for goods abroad is exhausting the savings of many nations and creating a demand for additional capital. Here is another opportunity for American business and American private investors.

Among the private U. S. groups which have recognized this international capital hunger is the Login International Corporation of San Francisco, which is embarking on a private aid program to assist overseas economic development. In India, Login and a U. S. paper company are putting up one half of the capital needed to get a paper mill into operation. An Indian industrialist is supplying the other half.

In Washington, government officials recognize that our economic relations with foreign countries are fast outgrowing such crash-programs as the Marshall Plan.

Harold C. McClellan, recently resigned Assistant Secretary of Commerce for International Affairs, takes the view that tax-financed government aid to a foreign country should be used only where free enterprise cannot do the job. This was the situation in West Europe after World War II, Mr. McClellan pointed out in an interview with NATION'S BUSINESS.

"Foreign aid in Europe—through the Marshall Plan primarily—had as its purpose the helping of countries that were war-torn and whose primary utilities had been destroyed. That foreign aid was used to restore these basic facilities so that private industry and general economic activity could be resumed.

"Once this was done, there was need for capital, for technical know-how to enable these countries to make the most of the opportunities available to them. This presented the opportunity for private business and trade and normal economic growth to replace government activities. The European countries are now at perhaps the highest point of prosperity in the history of all Europe. As a result, we have benefited in terms of expanded trade with European nations and reduced need for the kind of aid that we were giving before."

Mr. McClellan says there are still some instances where U. S. government aid is essential as a first step, but he emphasizes that this should only be done to get the recipient countries to a stage of development where private enterprises and individuals can take over.

This is being accomplished now

on a surprisingly successful scale in the countries to the south of us. A study of "The Role of U. S. Investments in the Latin American Economy" conducted by analysts in the Office of Business Economics of the U. S. Department of Commerce shows that by their productive activities, investments and share in income flows, United States companies are contributing a substantial part of the total economic activity of Latin America.

More specifically, the study reveals that U. S. firms produced nearly \$5 billion of goods and services in Latin America in 1955, including

Latin America; that more than \$4 billion was paid out in Latin America for wages, taxes, local material, and other items (three quarters of the total sales proceeds of the enterprises); that in 1955 actual capital expenditures for fixed investments, additions to inventories, and exploration and development were \$600 million—an amount twice as large as the increase in book value of the investments.

"The contribution to the economy of the Latin American countries in terms of employment of dollar earnings, taxes paid and general growth was beyond any previous concept



**HAROLD C. MCCLELLAN,**

leaving government to return to business, says private money does not carry the stigma of "the never appreciated handout to a poor relative."



**EDGAR F. KAISER,**

whose Industrias Kaiser Argentina employs 2,000, says that in foreign operations, "don't tell people how good you are: Tell them how good they are."

more than \$2 billion of exports; that U. S. companies produced 30 per cent of all Latin American exports in 1955; that export earnings by American firms were large enough to cover all foreign exchange costs of the companies for imports and remittance and still return a surplus of more than \$1 billion a year to

accepted within those countries," says Mr. McClellan.

Some of the advantages and benefits in U. S. private trade and investment abroad cannot be measured with a statistical yardstick. Among these is the growing conviction that business rather than the federal government can make the greater long-



term contribution to international understanding of our aims overseas and our economic concepts. The hundreds of U.S. subsidiary and branch businesses which this year will manufacture more than \$40 billion worth of goods in foreign countries have also built good will for America.

The private money does not carry the stigma of what Harold C. McClellan has characterized as "the never appreciated handout to a poor relative." It is not lost in an administrative or bureaucratic shuffle. It goes directly to the point where it can do the most good, without raising suspicions regarding political motives.

"Service to others" is the way one prominent American industrialist has described what should be the undergirding idea of U.S. private business abroad.

To this end, he says, it is important to remember two things:

1. When you open an overseas plant or subsidiary do everything possible to make the nationals of the country where you are locating feel that they have a responsibility in the enterprise.

2. Remember that the building of local productive capacity may be crucial in an industrializing country since it can help the country to get its economy on a firm footing and correct the imbalance of having to buy more from abroad than it sells in export.

The Latin American operations of the Kaiser Industries Corporation constitute a kind of "how to" for other companies interested in overseas operation.

Kaiser's biggest Latin American enterprise is Industrias Kaiser Argentina, or IKA, which produces Jeeps, Jeep station wagons and Jeep trucks.

According to Mr. Edgar F. Kaiser, president of Kaiser Industries Corp., the building of local pride in this operation was a consideration from the outset.

IKA at present has more than 8,000 Argentine stockholders. They hold approximately 46 per cent of the company's common shares. The Argentine government holds 22 per cent and the Kaiser Industries Corp. holds the rest, 32 per cent.

This broad spread of local ownership dissipates any possible feeling that the operation is an intrusion by profit hungry foreigners.

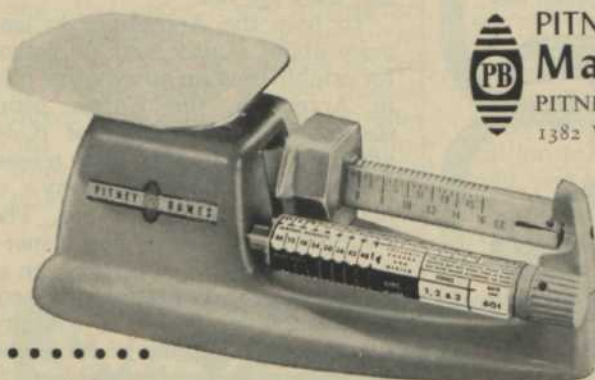
Americans hold the centralized management responsibility in IKA and if they discharge that responsibility well and make themselves wanted it is likely that they will continue to be given management

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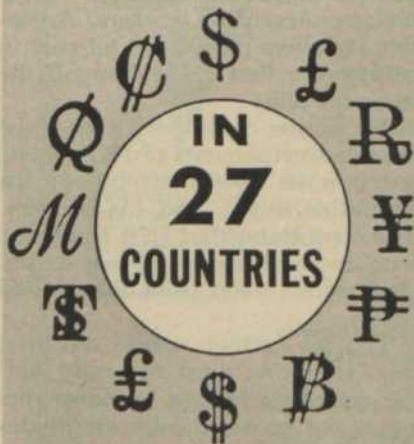


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## AID WITHOUT TAX

*continued*

responsibility, says Mr. Kaiser. But there is more to the formula than responsible management and local ownership.

"We discovered that in order to be accepted we first had to know and understand the Argentines," says Mr. Kaiser. "Second, they had to know us."

"You must understand their national customs, their attitudes and, if possible, learn their language. Some of these things may sound unimportant and apart from the job of building a plant and manufacturing automotive vehicles. But, believe me, they are not."

To help the Argentines to learn more about Kaiser and its reasons for establishing an automotive plant in Argentina, the Kaiser people started telling the story of Kaiser affiliated companies in news releases which outlined the company's experience and its background. They went to virtually every newspaper in Argentina. At the same time, an advertising campaign stressed the contribution which Kaiser is making to the Argentine economy: More than 1,200 men had jobs building the plant; more than 50 major contracts were placed with 37 Argentine contractors; orders exceeding 100 million pesos for production parts were placed with Argentine vendors.

Also stressed is the fact that Argentine engineers, Argentine technicians, Argentine workers, Argentine suppliers played a vital part in getting the first IKA Jeep off the assembly line.

Mr. Kaiser continues: "One of the latest advertisements of IKA points out how its operations benefit the Argentine buyer, and his country. The copy states that IKA is making four Jeeps at the same cost as importing one Jeep from the United States."

The ad further points out that this Argentine Jeep not only aids the country's foreign exchange position but provides jobs, stimulates other local industries, provides economical transportation and increases personal income.

"When you have the responsibility for managing a company in South America, or any foreign country, don't tell people how good you are. Tell them how good they are and what they are doing to make the operation possible."

Some businessmen have expressed the fear that as the so-called underdeveloped countries become industrialized they will be able to provide their own needs for manufactured

goods. On this, Mr. Kaiser says:

"I think American companies will gradually lose some of their export business. However, they can replace some of this volume by establishing companies in foreign countries—companies that are required to build the economies of those countries."

"We are constantly expanding our businesses in this country. But you might ask, how do you continue to expand if the volume of American exports declines? Here you have to recognize that a change has been taking place. You expand, not by your export business alone, but by being a part of the businesses that the foreign countries need to raise their living standards."

Mr. McClellan says simply: "... the better the development of a country the better our prospects for sales into that market."

Government policies in some countries still limit possibilities for both investment and trade.

"These countries," according to Mr. McClellan, "don't have a climate or policy that offers incentive and reward for investment. That is

We have learned the lesson that when opportunities for profit diminish, opportunities for jobs likewise disappear.

—Resolution of the Executive Council, AFL

why you find capital leaving some countries and going where the opportunity is greater."

Specific roadblocks include unfavorable tax policies, discriminatory labor laws, the danger of expropriation without prompt and adequate compensation, restriction on the convertibility of currency and the withdrawal of earnings.

Double taxation—taxes levied by foreign countries and our own—also militate against further overseas activity by U. S. firms.

Businessmen interested in overseas operation should check the stability of the government of the country in which they are interested; they should look into the labor laws of that country (some countries, for example, tax payrolls as much as 50 per cent or more of the pay scale for social security, or require companies to pay employees dismissed for reasons of recession for a year or more); they should work closely with our own Department of Commerce, which can provide country-by-country investment guidance, and other information.

END



## GENEROUS BANKER

continued from page 41

lending. In 1957 the amount was jacked up to \$1.3 billion.

**Slum clearance, urban renewal.** Federal lenders approved about \$200 million of these loans for fiscal 1957, which just ended. Some \$297 million was estimated in the current fiscal year. No congressional action is needed to commit this amount.

**Loans to colleges** to build dormitories and other facilities. Loan approvals are estimated by the Budget Bureau to go from \$252 million last fiscal year to \$289 this year. Congress increased the loan fund from \$750 to \$900 million.

In approving new funds for this program, the Senate resisted the idea of raising rates on low-interest federal loans. At present, the Treasury charges less than three per cent interest on college housing loans. But the Treasury has to pay more than three per cent to borrow the same money. An amendment to revise the interest formula to eliminate this hidden subsidy was killed by a 54 to 16 vote May 29.

This vote also portends a dark future for the Administration's new proposal to require other federal lending agencies which make fixed and low interest loans to raise their rates and to pay the Treasury what it must pay to get money on the market.

The Administration bill's purpose is to "insure greater consistency among federal loan programs, to avoid hidden subsidies and to achieve more effective coordination among government lending programs and fiscal and credit policy. It would affect the multimillion dollar Rural Electrification Administration operation, which makes loans to finance electricity and telephones for rural areas at the rate of two per cent. The measure would also mean slightly higher rates for certain loans under the Farmer's Home Administration and the Small Business Administration's disaster loans, as well as college housing loans.

Capitol Hill observers note that "strong lobby" groups would battle to keep low interest rates. They see almost no chance of passage for the legislation.

Federal money has been funneled to the farm population at an unprecedented rate lately.

**Commodity Credit Corporation.** Borrowing authority was upped from \$12 billion to \$14.4 billion in the fiscal year just ended. New loan and loan guarantee commitments for this year are set at about \$2.5 billion.

**Rural Electrification Administration** new commitments will reach \$265 million this year.

**Farmers' Home Administration.** Last year the agency lent \$266 million. This year, the amount is expected to reach \$310 million.

**The Federal Intermediate Credit Banks.** This program was shifted outside the regular budget lending tabulations into a special trust fund account. But if this were included in the lending statistics, loans would increase to \$2.2 billion in fiscal '58, about \$100 million more than last year.

**Veterans Administration.** These loans are expected to fall off with the slower pace in new home building. But under a special program, in areas where the guarantee program won't work because of lack of private funds at low interest, direct home loans are made to veterans. These are expected to climb from \$114 million last year to \$137 million this fiscal year.

**The International Cooperation**

**Administration.** The \$275 million in commitments would soar to \$500 million this fiscal year, and \$750 million next, under the State Department's proposal to create an economic development fund to make loans rather than grants for economic aid.

**Small Business Administration.** This agency has more than doubled its lending program in the past year. Legislation to make SBA permanent and enlarge its revolving fund for business loans from \$230 to \$450 million is pending in Congress.

The growth trend in major loan operations under various programs is evident in these figures: From the beginning of 1953 to the start of 1957, agriculture loans of the federal government rose from \$5 billion to \$6.2 billion, up 24 per cent; home owner loans increased from \$2.6 billion to \$3 billion, up 16 per cent; loans to industry grew from \$597 million to \$619 million, up four per cent, and foreign loans climbed from \$7.7 billion to \$8.2 billion, up six per cent.

END

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## THIS MAN IN '65

continued from page 35

it's selling, engineering or writing advertising copy.

The problem of what should be taught and how it should be done is as old as education itself. Now more than ever educators are thinking and planning ahead in agreement that specific job techniques are not the responsibility of the college or university, that colleges should teach more fundamental disciplines.

Dean Stanley F. Teele, of the Harvard Graduate School of Business Administration, notes four major trends that will affect the business executive of the next decade as well as future business education programs:

1. The fast rate at which developments in the physical and social sciences are being applied to business administration. These developments include automation, electronic data processing, operations research and consumer behavior research.

2. Increasing emphasis on advance planning. Increased costs of plant and equipment, growth of business enterprises, changes in population, guaranteed annual wage and long-

range capital budgeting have made this necessary.

3. Attention to the relations among people within an organization. Psychologists have pointed up the importance of work satisfactions and human needs for feeling useful and participating in group activities.

4. Growing acceptance by executives of responsibilities outside the business enterprise. Managers must not only be interested in major issues around them, but play a significant part in their resolution and participate in the affairs of society.

Dean Teele suggests that one successful pattern of education for managerial skills might be successive training at different stages of maturity and experience. The rise of management development programs at about 50 schools and at many companies indicates growing faith in this supplemental education. He also maintains that most development will inevitably come in carrying out the job rather than from formal education.

But the ideal preparation for a business career, he says, should include undergraduate courses which put heavy emphasis on skills of written and spoken language and mathematics, an understanding of the humanities through history, economics, political science and the natural sciences. This should be followed by graduate work to build a foundation which should begin to develop the capacity to make wise decisions, to work effectively with people, plus the skill to call on a body of specialized knowledge.

"The university will have to help men understand the role of the business enterprise and the businessman in our society," according to the dean. "And business schools will have to do much more to help students develop for themselves a set of ultimate values appropriate for them in society in the years ahead."

Many educators now advocate broad liberal training for business students, arguing that a liberal education exposes the student to the wisdom of the ages and the nature of man, and teaches the capacity to think in disciplined fashion.

These educators can draw strength from recent expressions by several business leaders. For example, Clarence B. Randall, former board chairman of Inland Steel Co., has warned that the country is in danger of yielding to "technical hypnosis," that the "art of management requires a broadly cultivated mind."

Thomas H. Carroll, a former business school dean and now vice president of The Ford Foundation, recently proposed to the American Association of Collegiate Schools of



LIEBERMAN-BLACK STAR

“The traditional approach to business education described in most catalogs today is outdated.”

—Dean Richard Donham, Northwestern

Business that more business schools consider adopting the five year approach to business education now in operation in some schools. Basically, this is three years of liberal arts courses, a fourth year of business courses and a fifth year of specialized training, plus broad subjects such as organization and communications theory, human relations and business policy.

Liberal arts is not necessarily liberal education, notes Northwestern's Dean Donham.

"Too often liberal arts courses aren't actually liberal. They are merely the first course in another profession," says North Carolina's Dean Lee.

But liberal education that instructs in principles and provides the training for analytical thinking and a frame of historical and philosophical reference for the job of living is a better educational foundation than a lot of knowledge in a specialty, most teachers believe.

"The more we specialize, the more we narrow the outlook. We must develop vision," says Dean Paul Martin Green of the University of Illinois' College of Commerce and Business Administration.

To develop vision and sharpen the necessary tools to make decisions and work with people, the business schools will turn to several new courses and techniques, the deans predict.

"The business education program will be broadened without losing specialization," Dean Green believes. "There will be more atten-

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tion to training students to recognize human resources rather than material resources. There will be many new courses in human relations and geography and characteristics of people in different sections where plants will be relocating, as well as new classes in data processing. They will be taught physiology to help them conserve strength under pressure."

Dean Green foresees the graduate of the future as a man "able to go into one industry as well as another and do several jobs, but be more expert in one."

"We're still pretty naive about this business training," he adds, "But schools are experimenting and looking to the future now more than ever."

There will be more blending of separate subject matter. Northwestern University in September will integrate such subjects as accounting, statistics and finance into one course, since at the action level in business all three are often used simultaneously. Dean Lee sees the prospect of tying such subjects as physics and chemistry together as one course and the alternatives of oral, written and visual communications combined in one course.

Too often, says Dr. Carroll, course materials are presented as "unrelated bits of information strung loosely together." Dean Donham notes that a student can't understand why he should be graded down for bad grammar in a report in a marketing course.

Some deans believe there eventually will be no undergraduate training in business, only graduate schools as in law and medicine. Few textbooks will be used and teachers will rely more on case studies.

Dean Teele at Harvard, where the case method was pioneered, believes more use will be made of the case research technique, whereby a team of students goes to a company to study a situation and come up with an answer—for instance, what its marketing problems will be for the next 10 years. More movies, charts and role-playing also will be used in the case method.

American Management Association's newly developed executive decision-making game could be another training device. The game pits several management teams against each other in a competitive test of decision-making skill on a make-believe basis. In a few hours, the players must solve simulated problems that might occur in years of actual business operation. (See "How to Build Know-how Fast," NATION'S BUSINESS, May, 1957, p. 34.)

END



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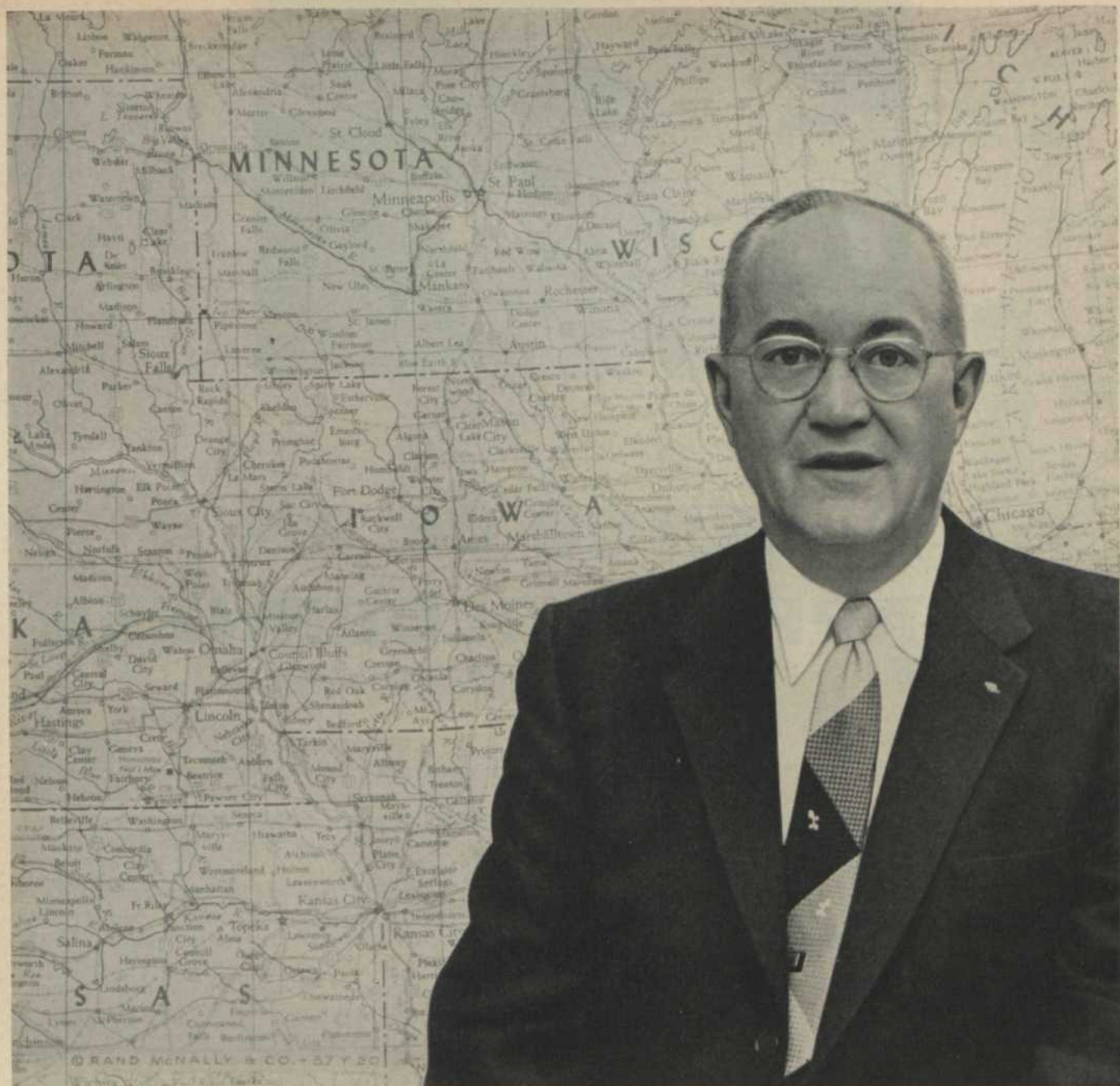
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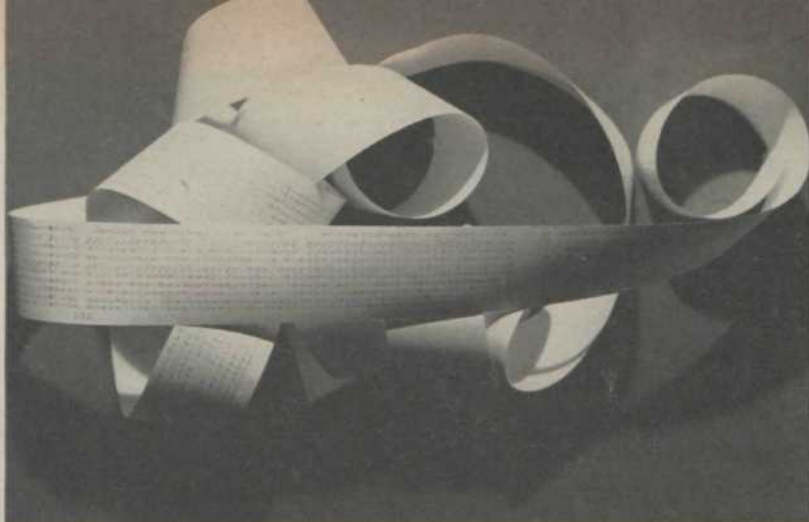
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# DEFENSE OF AN UNMAAPPED WILDERNESS

AS HE RUSHES pell-mell to the defense of a \$72 billion federal budget, the President is doing fiscally what he would not have done in battle.

As a successful military commander, General Eisenhower would not have committed American soldiers and matériel without careful reconnaissance to determine whether the objective was worth the cost. The very nature of the federal budget machinery makes similar reconnaissance impossible before he commits the nation's fiscal resources. With rare exceptions, government bookkeeping shows only what was spent—not what should have been spent.

Some vagueness is unavoidable. Who can say, for instance, how much it costs to keep a foreign nation from going communist? But much of it could be eliminated if government would consent to use costing methods that business has already proved effective. As matters stand now the budget is 1,300 pages of guesses by men who have no way of knowing what their operations ought to cost but expect them to be more expensive.

These men admit to their friends—and probably would admit to the President, who is a friendly man—that each year they pad their estimates in the hope of

having enough money to meet whatever their unknown costs may turn out to be.

Thus lacking sound accounting support, defenders of the budget have to depend on venom rather than facts.

Those who urge economy and efficiency thus face the charge of raising an irresponsible clamor and trying to sabotage the President's program. Secretary of Commerce Sinclair Weeks used this technique in a frantic speech in which he accused business of "going through the plant with a sledge hammer trying to smash the very tools that produce prosperity."

He did not say what the tools were. Whatever they are, he didn't say what they ought to cost. Having thus contributed only fevered oratory to the budget discussion he added:

"I am sure that once businessmen and others realize the . . . full truth about the budget, they will act with wisdom and courage."

The hope is well-founded.

But, today's budget process doesn't make the full truth about the budget available to businessmen.

Or to Secretary Weeks.

Or, unhappily, to the President.



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